Thesis
H34

Library
U. S. Naval Postgraduate School
Annapolis, Md.

Library
U. S. Naval Postgraduate School
Annapolis, Md.

A COMPARISON OF THE RETIREMENT SYSTEM OF THE ARMED FORCES WITH THOSE IN BUSINESS AND INDUSTRY

21291
H34

A Thesis

Presented in Partial Fulfillment of the Requirements

for the Degree Master of Science

By

PHILIP FREDERICK HAUCK, B. Sc.

The Ohio State University

1950

TABLE OF CONTENTS

CHAPTER

I. THE PROBLEM AND HISTORY 1

The Problem 1

Statement of the problem 1

Limits of the problem 1

Importance of the study 2

Data and methods used 3

Previous research in the subject field 4

History 4

Business and industry 5

Armed forces 8

II. THE PURPOSE OF AND THE PAYMENT FOR RETIREMENT SYSTEMS . . . 12

Purpose 12

The employer 12

The employee 16

Society 16

Payment 17

The employer pays? 18

The consumer? 18

Retirement costs absorbed in productive efficiency? . . 18

The employee? 19

III. CONTRIBUTORY VERSUS NON-CONTRIBUTORY SYSTEMS 21

Advantages of the contributory system 22

To the employee 22

12837

TABLE OF CONTENTS

THESIS
H34

CHAPTER

I. THE PROBLEM AND HISTORY 1

The Problem 1

Statement of the problem 1

Limits of the problem 1

Importance of the study 2

Data and methods used 3

Previous research in the subject field 4

History 4

Business and industry 5

Armed forces 8

II. THE PURPOSE OF AND THE PAYMENT FOR RETIREMENT BENEFITS . . . 12

Purpose 12

The employer 12

The employee 16

Source 16

Payment 17

The employer pays 18

The consumer 18

Retirement costs charged in productive efficiency . . 18

The employee 19

III. CONTRIBUTORY VERSUS NON-CONTRIBUTORY SYSTEMS 21

Advantages of the contributory system 22

To the employee 22

1283?

CHAPTER

To the employer 23
To society 24
Disadvantages of the contributory system 24
To the employee 24
To the employer 25
To society 25
Practice 25
Amount of employee contributions 27
Adoption of a contributory system in the armed forces . . 28
IV. VESTING 32
Defined 32
Considerations in vesting 33
Vesting in business and industry 35
Vesting in the armed forces 38
V. FUNDING 45
Defined 45
Considerations 46
Practice 47
Use of funding in the armed forces 48
VI. SUPERANNUATION RETIREMENT 52
Purpose 52
Considerations in setting the age 52
Present practice 55
Business and industry 55

CHAPTER

To the employer 23

To society 24

Disadvantages of the contributory system 24

To the employee 24

To the employer 25

To society 25

Practice 25

Amount of employee contributions 27

Adoption of a contributory system in the armed forces . . 28

IV. VESTING 32

Defined 32

Considerations in vesting 33

Vesting in business and industry 35

Vesting in the armed forces 36

V. FUNDING 45

Defined 45

Considerations 46

Practice 47

Use of funding in the armed forces 48

VI. SUPERANNUATION RETIREMENT 52

Purpose 52

Considerations in setting the age 52

Present practice 55

Business and industry 55

CHAPTER

Armed forces 55

Considerations in setting the amount of benefit 57

Practice 58

Business and industry 58

Armed forces 60

Comparison 60

VII. PRE-SUPERANNUATION RETIREMENT AND SEPARATION OTHER THAN FOR DISABILITY 66

Forced attrition 66

Considerations 66

Business and industry 66

Armed forces 66

Meeting the problem in business and industry 68

Operation of the promotion system in the armed forces . . 69

Comparison 70

Voluntary retirement and separation 71

Requested by employee and approved by employer 71

Business and industry 71

Armed forces 72

Comparison 73

Without approval of the employer 74

Business and industry 74

Armed forces 74

Comparison 74

CHAPTER

Compromise in the armed forces 74

VIII. DISABILITY AND SURVIVOR BENEFITS 81

Retirement and separation for disability 81

General 81

Business and industry 81

Armed forces 82

Comparison 83

Survivor benefits 83

General 83

Business and industry 84

Armed forces 85

Comparison 85

IX. SUMMARY AND CONCLUSIONS 90

History 90

Purpose 90

Payment for retirement systems 91

Contributory vs. non-contributory systems 91

Vesting 93

Funding 94

Superannuation retirement 95

Pre-superannuation retirement and separation other than for disability 97

Disability and survivor benefits 100

Concluding remarks 101

Comparisons in the armed forces 74
VIII. 82
Retirement and separation for disability 83
General 83
Business and industry 85
Armed forces 91
Comparisons 93
Survivor benefits 95
General 95
Business and industry 96
Armed forces 97
Description 97
IX. 104
History 105
Purpose 108
Payment for retirement systems 111
Contributory vs. non-contributory systems 111
Vesting 113
Funding 114
Supplementation retirement 117
for disability 120
Disability and survivor benefits 120

CHAPTER

REFERENCES 103

BIBLIOGRAPHY 110

APPENDIX A Career Pay Computation for Officer Advancement under Permanent Provisions of Public Law 381, 80th Congress and Assumed Advancement for Enlisted Personnel (On Monthly Basis) 114

APPENDIX B Comparison of Pay in Armed Forces and in Business and Industry for Comparable Work 115

APPENDIX C Comparison of Civilian Compensation and Military Compensation Proposed by the Hook Commission 116

Conclusion 116
Brief Comparison Proposed by the Book . . .
Appendix I: Comparison of Civilian Compensation and Mili-
Appendix II: Comparison of Pay in Armed Forces and in
Digital Personnel (In Quality Pairs) 124
Body Weights and Assumed Allowances for Ex-
Select Functional Precedence of Tactile Law 321,
Appendix V: Assess The Suitability for Military Employment
. 130
. 103

LIST OF TABLES

TABLE		PAGE
I.	Analysis of use of contributory and non-contributory retirement plans	30
II.	Employee contribution rates in group annuity plans analyzed by Social Security Administration	31
III.	Analysis of vesting provisions in pension plans processed by Bureau of Internal Revenue to August 1946	40
IV.	Full vesting provisions in 289 retirement plans analyzed by Bankers Trust Company, 1948	41
V.	Eligibility requirements for membership in 289 retirement plans, Bankers Trust Survey	42
VI.	Eligibility requirements for membership in 368 group annuity plans, Social Security Administration Survey	43
VII.	Vesting provisions in 289 group annuity plans analyzed by Social Security Administration	44
VIII.	Funding in three retirement system surveys	50
IX.	Appropriations for pay and allowances for active and retired personnel and percentage relationships	51
X.	Retirement benefits expressed as percentage of average monthly compensation in 266 plans, Bankers Trust survey	62
XI.	Retirement benefits expressed as percentage of average monthly compensation derived from benefit provisions in 311 plans, Social Security Administration survey	63
XII.	Percentage benefits of Rear Admiral (upper half) with	

LIST OF TABLES

TABLE PAGE

TABLE PAGE

40 years service and chief petty officer with 30 years service compared with those of comparable civilians on average monthly compensation basis 64

XIII. Limitations on retirement benefits to high salaried employees in 289 retirement plans, Bankers Trust survey 65

XIV. Early retirement provisions in 278 retirement plans, Bankers Trust survey 76

XV. Early retirement provisions in 376 group annuity plans, Social Security Administration survey 77

XVI. Early retirement provisions in 612 retirement plans, O'Neill survey 78

XVII. Attrition and benefits incident to advancement of officer personnel, U.S. Navy, under permanent provisions of Public Law 381, 80th Congress 79

XVIII. Comparison of percentage benefits of passed-over Captains, Commanders, and Lieutenant Commanders with those of comparable civilians on average compensation basis 80

XIX. Contributory group insurance plans for death and disability (non-occupational) 87

XX. Pre-retirement survivor benefits and life insurance in 612 corporations having retirement systems, O'Neill survey 88

XXI. Monthly rates of compensation to widows and children of deceased veterans of World War II 89

xiii

CHAPTER I

THE PROBLEM AND HISTORY

THE PROBLEM

Statement of the problem.

It is the purpose of this study to compare the retirement system of the armed forces with those in business and industry in order to: (1) identify the purposes, salient characteristics, and benefits in each; (2) identify the trends in civilian systems; (3) appraise the retirement systems of the armed forces, giving consideration to the interests of the personnel, of the government and of the public; and (4) propose improvements to the retirement system of the military establishment.

Limits of the problem.

First, as in any study involving a consideration of data that are spread through an extensive field, a major problem is the securing of a representative sample of these data. With the armed forces, no serious difficulty is involved because of the limited number of organizations to be considered, and because of the close similarity of provisions for retirement among the three services. However, in the field of business and industry, it has recently been estimated that there are over nine thousand retirement plans.[1] In addition, there are a large number of employee benefit plans, usually insurance plans, covering disability and death benefits. Next, there are differences between the two organization categories that do not lend themselves to comparison on

any basis approaching quantification. These include principally (1) the conditions of service (for example, what consideration should be given to the "migratory existence" and the hours of service of members of the armed forces?),[2] (2) the tenure of position (how does the instability of employment of the businessman and the industrial worker due to business cycles compare with that of service personnel caused by forced attrition in the promotion system and to cut-backs in the size of the military establishment?), and (3) the crucial nature of mission (to what degree do the importance of missions differ, and what consideration should be given in the setting of armed forces retirement provisions and the granting of benefits?). The bearing of such matters upon a comparative study is appreciated, and it should be recognized that they are factors that are difficult to weigh.

Importance of the study.

Today there are frequent references in the daily newspaper to adoption of new pension plans and modification of old plans. These testify to the important role that the subject of retirement plays in today's industrial world. Strikes, often threatened and frequently executed, testify that this is currently an important issue. In 1948, the National Labor Relations Board, in the case of the Inland Steel Company, ruled that employers must bargain collectively on pensions, health and welfare benefits.[3] Congressional consideration of amendments to the Social Security Act attest the national significance of security in old age and disability.[4] Passage of the "Career Compensation Act of 1949" demonstrates active interest by the government in retirement laws

affecting the armed forces. Enactment of this law, covering both service compensation and disability retirement, was preceded by a number of studies and extensive hearings on all phases of military retirement. Only wide differences of opinion on certain phases of retirement and the urgent need for minimum legislation accounts for the failure to include all types of retirement. Superannuation, forced, and "voluntary" retirement, financing and administration of the retirement systems within the military establishment continue to be a subject of Congressional study. As in the consideration of much legislation involving the expenditure of government funds for programs included under personnel management, the question recurs, "How does this proposal compare with practice in business and industry?"

Data and methods used.

As indicated above, the field of industrial retirement systems is an extensive one because of the number of plans involved. Also, among individual plans there is an extremely wide variation in provisions for retirement benefits, vesting, contributions and other factors. Therefore, the writer sought data which might provide information more representative of industrial practice than would a necessarily small sample of individual plans. Information of this type was found in the form of four separate surveys conducted by one author and two large organizations: a survey of 289 retirement plans conducted by the Bankers Trust Company of New York,[5] separate analyses of 376 group annuity plans[6] and of fifty employee benefit plans in the steel industry,[7] and a survey of 612 retirement plans by Hugh O'Neill.[8] Although

individual company plans will be used for supplementary purposes, data derived from the above sources will be used primarily in direct statistical comparisons.

Previous research in the subject field.

In 1948, J. H. Mackroth at this university, presented a thesis in which he made a study comparing the retirement system of the United States Navy with systems in the Federal civil service, the State of Ohio civil service, the Foreign Service of the State Department, and Social Security.[9] The present study may be considered an extension of the above comparisons into the business and industrial fields.

HISTORY

It is known that pensions were granted to military personnel in the days of the Roman Empire,[10] but in those early days of history, up through the communal and feudal eras, there was little need for security plans covering the population at large. Man's life lay close to the soil, and from birth to death he drew his subsistence directly from the land. In his old age, he was cared for and supported at home by the younger generation. His position in society was usually fixed from birth, depending upon the class into which he was born and each class was responsible for the welfare of the class just below it. However, with the advent of the industrial system, his position underwent a social and economic change. From then on his position in economy was based, not on status in a hierarchy, but on individual contract in employment.[11] Economically, he was now dependent upon wages to provide him with the

essentials of life. When employment ceased, life, or at least the standard of living, was endangered. It was to meet the needs of this new predicament that large-scale pension plans came into being. In the years since the beginning of the new era, industry has seen provision made for the non-employable through charity, both public and private, and through savings, both voluntary and compulsory. As with many social reforms, the development of formal retirement plans seems to have originated with government. In 1810, a formal retirement plan was adopted for British civil servants.[12] A retirement system was developed for Swiss school teachers in 1839.[13] In 1852, the English adopted a plan for military personnel.[14] A contributory retirement system was adopted in German industry in 1860.[15] Murray Latimer mentions records of pensions being granted to slaves in the United States.[16]

Business and industry.

One method of providing for superannuated and disabled employees is still in use today, although to a lesser degree than in years past. This is the provision of lower paid jobs whose requirements can be met by the employee of decreasing or reduced capabilities. Examples of such provision are in the filling of positions as watchmen and gatekeepers by employees no longer able to meet the physical or mental requirements of formerly held jobs. Also, in the nineteenth century there were numerous informal pension plans, in which a former employee might be provided for through the disbursement of company funds, depending on business conditions and the whims of the employer. Murray Latimer, in a very thorough study of industrial retirement plans in the

United States and Canada, notes that the first formal retirement system on the American continent was that of the Grand Trunk Railway of Canada, adopted in 1874.[17] It was a contributory system (for the clerical and indoor staff entering service before the age of thirty-seven) under which employee and employer each contributed 2½ per cent of salary and retirement was permitted at the age of fifty-five with an annual benefit equal to one sixtieth of pay at time of retirement multiplied by the number of years service, with a maximum of two thirds of final pay. In 1875 the American Express Company inaugurated a non-contributory system.[18] The Baltimore and Ohio Railroad inaugurated a contributory plan in 1880.[19] The first formal plan in the manufacturing industry was initiated in 1882 by Alfred Dolge, a New York felt manufacturer. His company, however, failed in 1898 and it was not until 1901 that the Carnegie Steel Corporation inaugurated the first enduring plan in the manufacturing field.[20] Leading the way in the development of retirement plans were the railway, steel, public utility, and oil companies. Indicative of the extension of coverage of employees in the railroad industry in the United States are the following figures: in 1890 approximately three per cent of all railroad employees were covered by retirement plans, in 1900 eleven per cent, in 1910 fifty per cent, in 1920 seventy-six per cent, and in 1927 eighty-two per cent.[21] Since the latter date the federal government has taken control of retirement in this field under the Railroad Retirement Act of 1935.

Overall growth of plans in business and industry is indicated in the following list of plans adopted up to 1929:[22]

1874 to 1900 - 12 plans adopted

1901 to 1905 - 24 plans adopted

1906 to 1910 - 30 plans adopted

1911 to 1915 - 101 plans adopted

1916 to 1920 - 120 plans adopted

1921 to 1925 - 72 plans adopted

1926 to 1929 - 59 plans adopted

Of these 418 plans, 397 remained in 1929. Treasury Department data on plans approved by the Bureau of Internal Revenue indicate rapid growth in later years.[23] 517 plans were initiated from 1930 through 1939. In 1940 and up through August 1942, 843 plans were initiated. Over four thousand plans were initiated in the following twenty-eight months, through 1944. By the close of 1946 a total of approximately seven thousand plans had been inaugurated. As previously indicated, a total of about nine thousand retirement plans are now in operation. (Lest these numbers prove misleading to the reader, it should be noted that the total number of corporations in the United States approaches five hundred thousand).[24] Principal causes of the radical increase in numbers of plans during the recent war years were three in number: (1) the allowance of corporation income tax deductions for profits transferred to approved pension plans, (2) the high excess profits tax rate during these years, and (3) the freezing of wages, inclining employers to attract and hold employees through other forms of compensation.

The Old Age and Survivors Insurance (Social Security) and

Railroad Retirement systems, administered by the federal government, also provide for industrial workers.

Armed Forces.[25]

"Voluntary" retirement for military personnel, contrary to the belief of many, although initiated at the request of the member of the military establishment, may not be effected without the approval of the Secretary of the department concerned. Such approval is usually given only on grounds that will be of benefit to the government. From its inception in 1855, voluntary retirement has been closely associated with the maintenance of a promotional system and has developed into an inducement in the recruitment and retention of personnel. An act of 1855 provided that naval officers of certain grades could be placed on a "Reserve List" with either leave of absence pay or furlough pay. A "Retired List" was established in 1857, marking its first appearance on Federal statutes. With the advent of the Civil War more attention was paid to the disposal of superannuated officers who, though no longer fit for service (some were over eighty years old), were nonetheless holding down active duty billets. So in 1861 legislation was enacted, covering both the Army and the Navy, which provided for voluntary retirement of officers at seventy-five per cent of active duty pay after forty years of service. This legislation failed to eliminate the "dead wood" problem of the services and by 1899 the service requirement had been reduced to thirty years and provisions had been extended to include the enlisted personnel of both branches. In 1916, the Navy's Fleet Reserve system was established whereby enlisted men could apply for transfer to

give benefits for industrial workers.

Issues Papers.25

"Voluntary" retirements for ailing personnel, started by the retired at most, although existing by the schemes of some members of the national government, may not be affected without the approval of the national government. Such schemes in reality have only a nominal contribution, which is usually paid by the employer. In 1919, the Early Days Pensions Act was introduced in order to encourage the retirement of people who had reached the age of 65 years. In 1933, voluntary retirement was also closely associated with the retirement of a significant number of personnel into an "Invalid List," and subsequently in 1937, wartime ills caused an "Invalid List," and subsequently in 1937, wartime ills caused an increase in the voluntary and involuntary retirement. In most of these cases, it would be assumed that retired officers would be given a "Pensions List," with either lower or greater pay or privileges. In 1937 Lieutenant Vice General officers of medical rights would be given an increase in the voluntary and involuntary retirement. In most of these cases, it would be assumed that retired officers would be given a "Pensions List," with either lower or greater pay or privileges. In 1937 Lieutenant Vice General officers of medical rights would be given an

inactive status after sixteen years service. In 1925 the service requirement was increased to twenty years. Twenty year retirement for enlisted personnel of the Army was authorized in 1945. In order to reduce a serious hump in the officer ranks of the Army, caused by the influx during the first World War, retirement of officers with fifteen years service at the rate of 2½ per cent of base pay (2½ per cent times years of service times final pay) was authorized in 1935. For a similar reason, notwithstanding a previously initiated promotion system involving forced retirement, similar legislation was enacted for the Navy in 1938, but with a twenty year service requirement. Public Law 305, in 1945, brought all services into uniformity for both officers and enlisted personnel, authorizing requested retirement after twenty years service, at a rate of pay of 2½ per cent of base pay per year of service, if approved by the Secretary of the service concerned. Requests of enlisted personnel for retirement under this law are almost invariably approved. In the case of officers, however, approvals of requests are few.

Forced retirement is effected as a consequence of failure of selection for the next higher rank or because of having reached the statutory age limit, and applies only to officer personnel. Superannuation retirement was introduced in 1861 as part of the same legislation noted above, with an age limit of sixty-two years. This was later extended to sixty-four years and then, recently, again reduced to sixty-two years. Promotion systems, designed for the purpose of maintaining vigorous physical and mental capacity throughout the

commissioned ranks, were introduced relatively late in service history. In 1899, a "selection-out" system was enacted in the Navy with the introduction of "plucking" boards which selected for forced retirement certain prescribed numbers in the various ranks in order to maintain an adequate flow of promotion. This procedure was changed in 1916 with the adoption of a "selection up" system for captains, commanders and lieutenant commanders, under which those who failed of selection were forced to retire upon reaching certain age limits, at the 2½ per cent retirement pay rate. The Officer Personnel Act of 1947 extended the Navy's promotion system to the Army and the Air Force. Promotion through selection was applied to all except the lowest officer rank, and forced retirement for those "passed over" was set up on a years service basis.

Disability retirement was initiated in the early months of the nation's history with the passage of a law in 1776 providing for the retirement on half pay of personnel, officer and enlisted, disabled in line of duty.[26] Subsequent legislation indicates that this act expired in time, for in the law of 1861 provision was made for the disability retirement of officers on seventy-five per cent of active duty pay and in 1867, legislation applicable to naval enlisted personnel, provided for half-pay disability retirement after twenty years service and for disability assistance from the Naval Pension Fund after ten years service. In 1941, disability retirement provisions were extended to enlisted personnel of the Army. The "Career Compensation Act of 1949" set up uniform disability legislation for officers and enlisted personnel.[27] For those with a disability of thirty per cent or more, as

determined under the Veterans' Administration standard rating, retirement may be effected at either a rate equal to the disability percentage or at the 2½ per cent times years of service rate, at the choice of the individual. For those with a disability of less than thirty per cent, severance pay (two months active pay per year of service to a maximum of two years pay) is provided, except that those with twenty or more years service may retire at the 2½ per cent rate.

An interesting form of remuneration, not classifiable under any of the above types, was that provided by an act of 1778 for a pension at one half pay for seven years for all officers remaining in service until the end of the Revolutionary War.[28] This is a vivid example of deferred compensation used for the sole purpose of "holding the employee".

CHAPTER II

THE PURPOSE OF AND THE PAYMENT FOR RETIREMENT SYSTEMS

PURPOSE

Retirement systems provide advantages to three broad groups in the modern community. Each of the three, with the passage of time, has evinced an increasing interest in this subject. First, the employer (management, the stockholders, the government) has found that herein lies an effective means of increasing productive efficiency, so essential to the security of any large scale enterprise. Second, the employee (the executive, the machinist, the soldier) finds in retirement systems one means of insuring himself, and of course his dependents, against the day when through accident, disease, or natural deterioration of mind and body, his services to the community can no longer demand a living wage. Third, organized society by virtue of its self-interest in the well-being of humanity finds here an orderly, reasonably reliable and self-respecting means for the alleviation of human suffering.

The employer.

Until recent years, systems of retirement have usually originated with the employer. Especially in industry, this gratis distribution of capital has not been made through the "goodness of heart" of the employer, but rather through an appreciation of certain advantages to him. A few industrial plans recognize this fact in literature issued to employees. A large public utility corporation notes that without a retirement plan, ". . . there would be a slowing

down of the telephone team as a whole and impairment of the telephone service."[1] A large automobile manufacturer, presenting his retirement plan to employees, writes, "It is therefore essential to any business that those of its people whose days of usefulness are declining be replaced by others younger and more vigorous."[2] The report of the Hoover Commission refers to the design of retirement systems for government organizations in order to, ". . . attract and hold qualified men and women . . ." and further remarks that, "Attention is focused on the efficiency of the organization, as is notably the case not only in the armed forces . . ."[3] Following are what are considered to be the four principal purposes of retirement systems:

Elimination of the superannuated.

Those who, because of declining physical and mental performance, cannot perform at normal efficiency adversely affect the overall organizational efficiency. Aside from accident hazards in certain types of work, the retention of superannuated employees may be considered to represent a loss equal to the difference between the salary paid them and the amount actually earned, as represented by their contribution to production. This factor assumes even greater importance in an organization's top management. Frequently, personnel whose activities demand more extensive and arduous physical effort are permitted earlier retirement than others, in appreciation of the earlier age at which physical capacity commences its decline.

Elimination of the disabled.

The benefits of eliminating the disabled employee

are similar to those discussed above. Unless the minimum physical standards for efficient performance are met, the productive efficiency of the organization may be expected to suffer. In industry, those who are only partially disabled may often continue in the same positions; others, as necessary, may be provided employment with lesser physical requirements. The armed forces demand of all their personnel an extremely high physical standard of performance, regardless of immediate duties, because of the basic mission of the organization. However, careful classification of positions may reveal a number which could be filled by persons with less than complete physical fitness.

Attract and hold employees.

As early as 1918 Lewis Merian, writing on the retirement of public employees, said, ". . . men who would not compete for the salary alone will compete for the salary plus the promised benefits. . . Men once in the service who would resign if there were no benefits will be held because of them."[4] The late Secretary of Defense James Forrestal noted the Services' need for compensation, including retirement benefits, that, ". . . will enable them to attract and retain their fair share of the best kind of men . . ."[5] During the past war, when industrial concerns could not compete for employees on a basis of wages, retirement benefits were offered as inducements. Today, large corporations attract and hold high echelon executives by the offer of very substantial pensions, six figure salaries having lost much of their attraction because of income taxes.[6] Writers in the past have pointed out that new young employees are much less interested in future benefits than in immediate wages and salaries. However, it would appear

that with the wide publicity given to pensions in the past two years, even the young age group would become more security conscious. In any case, in an organization which operates on a planned attrition basis, as do the armed forces, the attraction of liberal retirement benefits proves to be an important factor.

Elimination of the less efficient.

Elimination is evident only in the armed forces, where it is applied to the officer ranks through the system of promotion. This system, in effect, provides that of every one hundred officers entering the service at junior rank only about two shall continue in service to the superannuation age and attain to highest rank. After specified periods of service in the various ranks (except the lowest), selection boards choose certain percentages of officers for continued service. Those not so selected are separated from the organization. Through this procedure the government is assured that only the best officers, not necessarily all those who may be qualified, are advanced in rank, at the same time providing better opportunity for advancement to top rank to all future entrants.

Miscellaneous.

Other purposes which overlap with the above, have a very limited effect, or are totally without support, are deserving only of passing mention. These are: benevolence, improvement of morale, development of incentive, encouragement of thrift, rewarding of long and faithful service, promotion of community good will and better management-employee relations. Worthy of particular note as a reason for, (rather

than as a purpose of) retirement plans, is the fact that the industrial employer has the opportunity of gaining a portion of the above benefits at minimum cost to himself, in that such contributions as he makes to pension plans are deductible in the computation of federal taxes. During World War II profits and taxes rose to such heights as to permit the employer to provide retirement plans for a cost of as little as fifteen to twenty cents on the dollar.[7]

The employee.

The interest of the employee in retirement plans lies almost entirely in their provision for his future security. However much beyond his administrative control, private retirement plans provide him with a relatively simple and painless means of attaining that security. Particularly in the higher income brackets, where high tax rates and low investment interest rates have made it increasingly difficult for the individual to accumulate funds for future security, the provision of retirement plans by employers permits the accumulation of future income with minimum tax on present pay. Insofar as pension plans represent a form of profit sharing in industry, it is noted that in a Congressional survey of employee opinion on preference for method of receiving profit shares, fifty per cent expressed preference for their being placed in retirement funds, only thirty-five per cent preferred receiving them as part of regular pay.[8]

Society.

Merlam recognizes the adoption of retirement systems as a

"turning point in social evolution" and effectively sums up the viewpoint of society in the following words:[9]

> It is, therefore, a constructive social measure, because it tends toward greater stability and independence and reduces the need for public and private charity; and it does this by compelling the employees while possessed of full earning capacity to save part of their compensation for services rendered in order that they may be protected when their earning capacity fails.

Goldstein speaks of three layers of security; the first, provided through government activity (Social Security), supplying the bare essentials of existence; the second, through private pension plans, providing enough to increase income to a level that permits a reasonable standard of living; and third, personal thrift providing the luxuries.[10] Those who would let the thriftless suffer for their fault should realize that society has a lively interest in the dependents of the breadwinner, especially where the latter may be shortsighted in planning for the future. Aside from security to the individual member of society, it is noted that stability of income tends to reduce the swing of business cycles and in that sense contributes to the national economic health.[11]

PAYMENT

Who pays for retirement? When the retired employee, reflecting on his continuing income from a private or government retirement system, feels grateful for security in his closing years at home, in which direction should his mind turn in gratitude for this income? To the extent that he is receiving a return on his own contributions into the retirement fund, all will agree that this is his own money returning to its rightful owner. But what of the contributions made by his former

employer, whether he be in the business of manufacturing automobiles or that of providing public service? Employer contributions normally total at least half of the payment into retirement costs. The answer here is closely related to the issue of contributory plans versus non-contributory plans and that of vesting, discussed in succeeding chapters.

The employer pays?

Since the employer's contributions come from funds under his control, many think, and many employers are loathe to admit otherwise, that such contributions are a true cost to ownership. Those who accept this premise must conclude that pensions are simple acts of benevolence, "rewards for service". But, as indicated in previous sections of this chapter, the employer is not giving something for nothing. Retirement plans are initiated by management for purposes advantageous to management.

The Consumer?

It may be said that the consumer pays the costs of retirement systems, just as he absorbs the charges for wages, materials and overhead in production. As we shall see later, some or all of the expense of retirement may in time be eliminated through increased productivity. Further, to the degree that the government surrenders taxes on profits allowed as deductible, because of employer contributions to pension funds, it might be said that the consumer, as a taxpayer, is bearing the costs.

Retirement costs absorbed in productive efficiency?

Retirement systems may pay for themselves, insofar as the amount of working capital is concerned. O'Neill advances this idea in what he refers to as the "equalization theory"; given costs may provide certain benefits which will result in equal savings.[12] In a recent article on pension plans, Fortune Magazine recommends that management defray the costs of retirement plans by increasing productive efficiency instead of by increasing prices or accepting a decrease in profits.[13] The Timken Roller Bearing Company advises its employees that "Pensions Need Production". It reasons that unless production is improved to the point that it bears the costs of pensions, such costs must be reflected in higher prices, resulting in lower profits and reduced payments into pension funds.[14] Another large corporation has geared retirement benefits directly to company profits as an incentive to worker efficiency.[15]

The employee?

There is extensive and increasing support for the viewpoint that employer contributions are deferred wages, that the employee earns his retirement income. Merian speaks of retirement systems as being ". . . established by the government primarily in its own interest, but operated at the expense of the employees."[16] Pritchett notes that employer contributions are absorbed in the salary scale and that in the long run employees provide their own retirement pay.[17] The establishment of a retirement system marks a policy of paying partly in immediate wages, and partly through retirement benefits accumulated over a period of years in the form of compulsory savings. The Secretary of Defense, in outlining the mission of the Advisory Commission on Service Pay wrote,

"Many things combine to make up the compensation received by an individual for a given job . . . such things as insurance, retirement pay, and survivor benefits."[18] Members of Congress, when petitioned for pay increases to public servants, rightly point to the value of retirement benefits as a factor to be considered in arriving at a new salary scale for government employees. Especially since release of the recommendations of the President's recent steel fact-finding board, labor organizations are seeking the benefits of pension and welfare plans as a means to increased compensation.[19] Certainly in a competitive labor market, in an organization where there is no retirement plan, employees may expect to obtain increased immediate wages in the absence of deferred money benefits. The weight of opinion definitely seems to favor the proposition that retirement benefits derived from employer contributions really are deferred wages earned by the employee.

CHAPTER III

CONTRIBUTORY VERSUS NON-CONTRIBUTORY SYSTEMS

The controversy as to whether a good retirement system should be contributory (employee and employer both contribute) or non-contributory (employer pay all) is one based on best practice rather than on principle. As pointed out in the preceding chapter, the cash benefits that an employee receives from a retirement system represent "deferred wages", a return to him of his own money. We are now concerned with whether it is best to accumulate such benefits solely from employer payments or to have part of the payment routed through the employee's salary. Although management and labor have not usually opposed one another, on this issue, such a division has taken place recently in the movement of large labor organizations for increased compensation through pension and welfare benefit plans. This issue was the principal stumbling block in the recent United States Steel Corporation strike in 1949. Time Magazine commented on this controversy over contributions, "Actually the Murray-Fairless fight appeared to be less a matter of principle than one of various prides and prejudices".[1] The contributory issue is a current one in consideration of changes to the retirement systems of the armed forces, which are now non-contributory. The President,[2] and a joint armed services personnel board[3] have expressed themselves as favoring a change-over to the contributory type. On the other hand, the Hook Commission, which conducted an extensive study of compensation in the armed forces, recommends retention of the present non-contributory

system whereby the government pays all.[4] The President's steel fact-finding board, in its report submitted in September 1949, noted a "great trend in recent years" to non-contributory plans.[5] However, to many, no such trend is clearly evident, and it may be that the board's findings in this matter have created a trend rather than reflected one. In the following pages is presented an analysis of the comparative merits of the two systems, a consideration of present practice, and observations directed toward the problem in the armed forces.

Advantages of the contributory system.

To the employee.

Surety of benefits is greater under the contributory system. Here, the payments of the employee are clear evidence of his stake in the benefits. There can be little excuse for the employer's not making good on his plan if a portion of the supporting funds are directly provided by the members. Further, employee contributions usually necessitate the setting up of a reserve fund which acts as an insurance against business failures in industry and economy movements in government. Under a contributory system, there should be less danger of curtailment of promised benefits such as have been threatened in the past.[6]

With a contributory system, the employee can expect to receive a greater portion of his "deferred wages" in event of early separation from his employing organization, and in event of his death his dependents should obtain greater benefits. When an employee has been a member of a retirement system beyond a limited period, the employer cannot justly deny to him the return of his contributions unless

a previous understanding to this effect is recognized. There is strong argument as well for return of the employer's contributions to employee or dependent.

Opportunity for voluntary contributions on the part of employees may be expected in contributory plans, with resulting increase in security benefits. This practice is evident in many industrial plans as well as in the Federal civil service and foreign service plans.

Greater employee control in administration of the retirement system may be obtained when it is of the contributory type. The American Federation of Labor advises its unions, ". . . it may be necessary or advisable at times to accept a contributory arrangement, in order to get a stronger voice in administration of the fund . . ."[7]

Ability to vary equities through choice of optional methods of payment of benefits are more frequently found in contributory systems. For instance, a reduced retirement income might be selected by the employee in order to secure increased survivorship benefits for a dependent wife.

To the employer.

The fact that an employee contributes toward his future benefits acts as a brake on excessive demands for increase in benefits. With a contributory system, an increase in allowed benefits is normally accompanied by an increase in employee (as well as employer) contributions, causing the employee to give careful consideration to the desirability of such increase in expenses.

An employee, through his contributions, becomes an

active participant in a retirement system and he undoubtedly thereby better appreciates the system. Davis observes that an employee benefit program which the employee does not support, one in which he does not participate, one in which no sacrifice is involved, is of questionable value in effecting the desired improvement in management-labor relations.[8]

To society.

Society has an interest in the stability of economic conditions as well as in the security of the individual. A contributory system is more likely to be based on actuarial computations by which the present generation (to whom employee services are rendered) properly pays for its own future benefits. Society is assured that promises will be met and that benefit costs will be paid when they are incurred and will not be passed on to future generations.

Increased security may be expected from a system which makes provision for voluntary contributions beyond those required by the retirement plan.

Disadvantages of the contributory system.

To the employee.

Under present tax laws, the employee may suffer a money loss through higher personal income taxes. Whereas the contributions of the employer are deductible, those of the employee are not deductible and that portion of his income which he turns over to the retirement system is subject to tax. It would seem that the federal government, having through its exemptions to employers given impetus to

the movement toward security through retirement plans, could do more in the same direction by extending exemptions to employee contributions.

To the employer.

Administrative costs are higher in a contributory system because of the additional expense of handling payroll deductions and accounting for employee contributions.

It is probable that the employer is less able to exercise control over the employee because of his having to share control of the retirement fund with the employee and because of the employee's having a more obvious right to retirement funds.

The employer is likely to receive less credit for the benefits that the employee derives from the retirement program, since in a contributory system it stands out more clearly that the employee's money is behind the program.

To society.

In a contributory system which does not require the membership of all employees, those employees who choose not to join are likely to deprive themselves and their dependents of security, with unfavorable social consequences.

Practice.

Although the practice followed in any given field is not necessarily the best practice, it often serves as an effective means of developing public opinion in favor of that practice. It has previously been noted that the President's steel fact-finding board, in its findings in 1949, discerned a "trend" away from contributory systems toward the

non-contributory type. It is suggested that this finding is in error, although it may have reflected the bargaining practice of labor organizations in months preceding the board's meeting. It may of itself have created a trend which did not previously exist. In 1948, Walter Reuther said that no pension plan was adequate unless the employer contributed at least seventy per cent of the cost.[9] In 1950, it appears that he, and other powerful labor leaders, consider no plan adequate unless the employer contributes a full one hundred per cent of the cost.

Table I contains a summary of pension survey data covering plans adopted from before 1900 up through early 1948. It will be noted that in early years, plans were predominately non-contributory (Lines 1, 2, and 3). During the 1930's, and up to the period of our entry into World War II, contributory systems predominated among the new plans adopted (Lines 4 and 5). During the war years there was a strong swing back to the non-contributory type (Lines 6, 7, and 8), because employers, with excess profits, took advantage of the tax exemption privilege as applied to retirement plans. With the end of the war, and a reduction in income taxes, a trend back to contributory systems set in and appears to have continued at least through 1947. One source reports that this trend continued into 1949, although no substantiating data is offered.[10] Of the 6,862 plans approved by the Income Tax Unit of the Bureau of Internal Revenue up to August 1946 (Line 16), approximately thirty-seven per cent were contributory. However, based on total numbers of employees covered by each of the two types of systems, about forty-seven per cent (over one and one half million employees) were covered by contributory

plans. The Bankers Trust and Social Security Administration surveys both show high total percentages of contributory plans adopted since 1942, although samples in both cases are limited in number (Lines 17 and 18).

Employee-benefit plans covering special disability, death, sickness, hospitalization, etc., are very largely contributory. Of fifty plans in the steel industry surveyed in 1948, only two were non-contributory.[11]

Among the retirement plans administered by the federal government, covering relatively large groups of employees, only those of the uniformed services (armed forces, Coast Guard and Public Health Service) are non-contributory.[12]

Amount of employee contributions.

Most common practice is for employee contributions to be a percentage of salary, with the rate on the first $3,000 (the limit for Social Security payroll deductions) being less than that on the portion over $3,000. Most common percentages appear to be in the neighborhood of two per cent of the first $3,000 and four per cent of that portion over $3,000. Table II shows the contribution rates in 217 group annuity plans. Among federal retirement systems the rates are: six per cent for civil service; five per cent for foreign service; from 4.28 per cent (age 17) to 7.89 per cent (age 59) in the Tennessee Valley Authority, depending on age at time of entry; 1½ per cent for Social Security (but only on first $3,000 of annual compensation); six per cent for Railroad Retirement (but only on first $300 of monthly compensation).[13]

It is important to note that the rate of contributions by

the employee is likely to be reflected in the amount of benefits. Of 87 contributory plans in the Bankers Trust survey that provide for employee contributions both below and above $3,000, the rate is related directly to the rate of accruing benefits (percentage per year of service used in computing retired pay). In most of these plans, the employee contribution rate is two times, 2½ times and three times the rate at which benefits accrue (where the benefit is two per cent for each year of service, the contribution rate would be four per cent, five per cent and six per cent, respectively). Of the 87 plans, only four use a multiple less than two per cent and only thirteen use a multiple higher than three per cent.[14]

Most employers contribute 1½ to 2 times as much as the employee. It is estimated that in the past ten years employee contributions have dropped from around forty-five per cent to about thirty per cent of total contribution.[15]

Adoption of a contributory system in the armed forces.

From the viewpoint of the personnel, it appears that the adoption of a contributory system has advantages. However, two factors must be recognized in making such a change. First, with the adoption of a contributory system and until such time as Congress allows a compensatory pay increase (for employee contribution), personnel would suffer a reduction in take-home pay in the amount of the contribution. Second, a compensatory pay increase having been effected, an increase in amount of income tax may be expected by virtue of the increase in gross pay.

From the government's viewpoint, it may be expected that

an increase in administrative costs would accompany adoption of a contributory system. However, it would be reasonable to expect the employee portion of the retirement fund to share in defraying this additional expense. Because of increased rights of personnel to return of funds in event of early separation, it might be expected that increased turnover of personnel would result with consequent adverse effect on military effectiveness. This potential difficulty could probably be avoided by restriction of early separation benefits to a form of deferred payment in which benefits would not be actually paid to personnel until reaching a pre-designated age. (This subject is further covered in the chapter on vesting). To the government's advantage is the fact that contributions by personnel will have the effect of restricting benefit demands to reasonable limits. (See Chapter V on funding for additional treatment of this subject).

TABLE I

ANALYSIS OF USE OF CONTRIBUTORY
AND NON-CONTRIBUTORY RETIREMENT PLANS

Line	Note	Year of Adoption of plans	Contributory Per cent	Contributory (No. of plans)	Non-contributory Per cent	Non-contributory (No. of plans)	Total No. of plans
1	a	prior 1925	12%	(28)	88%	(211)	239
2	b	prior 1929	23	(90)	77	(307)	397
3	c	prior 1930	35	(37)	65	(68)	105
4	c	1930-1939	82	(425)	18	(92)	517
5	c	Jan. '40 to Aug. '42	62	(526)	38	(317)	843
6	c	Sept. '42 to Dec. '44	26	(1101)	74	(3109)	4210
7	d	in 1943	15	(4)	85	(22)	26
8	d	in 1944	43	(29)	57	(38)	67
9	d	in 1945	60	(31)	50	(21)	52
10	c	1945 to Aug. '46	37	(439)	63	(750)	1189
11	d	in 1946	51	(28)	49	(27)	55
12	d	in 1947	70	(23)	30	(10)	33
13	a	prior 1925	12	(28)	88	(211)	239
14	b	prior 1929	23	(90)	77	(307)	397
15	c	prior mid 1945	63	(385)	37	(227)	612
16	c	prior mid 1946	37	(2528)*	63	(4334)*	6862
17	d	1942-1948	49	(115)	51	(118)	233
18	f	1942-1948	58	(217)	42	(159)	376

Note: a. Industrial Pensions in the United States, (New York: National Industrial Pension Board, 1925), p. 15.

b. Murray W. Latimer, Industrial Pension Systems in the United States and Canada, Vol. I, (New York: Industrial Relations Counselors, Inc., 1932), p. 50.

c. Derived from data in Pension Trust Statistical Tables, (Washington, D.C.: Income Tax Unit, Bureau of Internal Revenue, undated.

d. 289 Retirement Plans, 1948 edition, (New York: Bankers Trust Company, 1948), p. 15.

e. Hugh O'Neill, Modern Pension Plans, (New York: Prentice-Hall, Inc., 1947), p. 291.

f. Analysis of Recent Group Annuities Supplementing Retirement Benefits under Old Age and Social Security, (Washington, D.C.: Social Security Administration, 1947), p. 5.

* Based on total numbers of employees covered by each type, approximate percentages are: contributory 47 per cent, non-contributory 53 per cent.

TABLE II

EMPLOYEE CONTRIBUTION RATES
IN
GROUP ANNUITY PLANS
ANALYZED BY
SOCIAL SECURITY ADMINISTRATION[a]

On first $3,000 of annual compensation	On annual compensation in excess of $3,000		Number of plans	Per cent of 217 plans
	Varies from	Most prevalent		
None	1% to 5¼%	5% (13 plans)	26	12.0%
1	0 to 3½	1 (4 plans)	8	3.7
1½	1½ to 4½	3 (5 plans)	8	3.7
2	0 to 5	4 (47 plans)	69	31.8
2¼	0 to 5½	4½ (5 plans)	9	4.1
2½	2½ to 5	5 (16 plans)	19	8.8
3	3 to 6	5 (7 plans)	26	12.0
4	4	4 (5 plans)	5	2.3
Above 4 . . .	0 to 6	5 (3 plans)	7	3.2
Other	- - - -	- - - - - -	40	18.4
		TOTAL	217	100.0

Note: a. Source: Analysis of Recent Group Annuities Supplementing Benefits under Old Age and Survivors Insurance, (Washington, D.C.: Social Security Administration).

Compensations	On annual compensation: Varies from	Short pyramid	Number of pleats	Number of diff pleats
None	14 to 54¢	36 (13 pleats)	26	14.44
1	0 to 3¢	1 (4 pleats)	8	1.7
1½	½ to 4¢	3 (5 pleats)	6	3.7
2	0 to 3	4 (4? pleats)	09	12.8
2½	0 to 3½	4½ (5 pleats)	0	4.4
2½	½ to 5	5 (10 pleats)	5½	6.8
3	3 to 6	5 (7 pleats)	3½	11.8
4	1	4 (5 pleats)	1	6.3
Above 4	0 to 6	5 (3 pleats)	7	3.3
Total	- - -	- - - - -	46	14.4

Total 317 100.4

CHAPTER IV

VESTING

Defined.

Vesting is the transfer to the employee, prior to normal retirement, of title to the amount of money paid into the retirement fund on his account by the employer. It is the interest that the employee acquires in the employer's contributions when his employment is terminated prior to normal retirement. It should be noted that vesting has no reference to employee contributions in a contributory plan. In most modern retirement plans the contributions of the employee are returnable to him, with or without interest, upon termination of service prior to normal retirement.

Immediate vesting refers to the transfer to the employee of right or title to employer contributions (not necessarily all) immediately upon entrance into the retirement system. Deferred vesting refers to the delayed transfer of this right until certain minimum qualifications (as attainment of certain age or length of service) have been met.

Full vesting refers to employee's gaining title to all of the employer's contributions at one time. Graded or partial vesting refers to his gaining title gradually to employer contributions.

For example:

In a system where an employee accumulates no title to employer contributions prior to normal retirement, there would be no

vesting.

In a system where he gains title to fifty per cent of the contributions after ten years service, and an additional five per cent for each year of service (making twenty years to gain full title), there would be deferred graded vesting.

In the example above, if the employee commenced gaining title to contributions as soon as he entered the retirement system, there would be immediate graded vesting.

If the employee gained title to the full amount after ten years of service, but no title prior to that time, there would be deferred full vesting.

If he gained title to the full amount immediately upon entering the system, there would be immediate full vesting.

Vesting should be distinguished from "early retirement" which involves the retirement of an employee at a time (usually specified in the plan) prior to reaching the normal retirement point, and incident to which the employee immediately commences receiving scheduled benefits but at a reduced rate.

Considerations in vesting.

The question of vesting is closely related to the theory of deferred wages (retirement benefits are part of employee compensation, payment of which is deferred) discussed in the previous chapter. On a basis of deferred wages, regardless of the reason for or the time of (beyond a minimum) termination of employment, the employer contributions represent the employee's money and he has every right to title to the

amount accumulated in his behalf. This is the reasoning of labor and many neutral writers. On the other hand, the employer who will not accept the theory of deferred wages is loath to accept the vesting principle.

Vesting may be recognized in one of two ways: by cash return to the employee upon separation, or by leaving the amount concerned in the retirement fund with the granting of benefits being delayed until the employee reaches normal retirement age, or until some time close to that age. Where vesting occurs, the employer normally prefers to employ the latter method in order to discourage employees from leaving the company in order to gain immediate cash benefits.

It will be recalled that one of the employer's principal purposes in having a retirement system is to gain permanency of personnel, reduce turnover, "hold the employee". In order to accomplish this, it is in his interest to minimize vesting. On the other hand, employees of course prefer maximum vesting. Vesting as practiced, is then a "compromise between the employee's wishes and the employer's purposes and budget."[1]

Vesting is important to the solution of the question of transferability (mobility of labor), whether the employee transfers his place of employment voluntarily or because of discharge.

Vesting is important to the security of the employee and his dependents, for whatever reason early termination of employment may take place. It follows that vesting is important to interests of society as a whole.

The adoption of vesting, or an increase in the liberality of vesting provisions, will increase the costs of a retirement system. Vesting must be paid for out of increased contributions, or by a decrease in benefits to those who are separated under normal retirement conditions.

Vesting in a contributory retirement system is normally contingent on the employee leaving his contributions in the retirement system at time of separation.

Vesting in Business and Industry.

Very few of the early retirement systems in business and industry made provision for vesting. However, in modern plans vesting is the rule rather than the exception. It is surprising to note that, although labor organizations have emphasized the importance of gaining vesting privileges in negotiating pensions,[2] many recently negotiated pension plans do not make provision for vesting. Under the Ford plan, unless an employee is in the service of the company until age sixty-five (or age sixty with thirty years service for early retirement; age fifty-five with thirty years service for total disability), he loses all title to retirement benefits. Except for Inland Steel Company's optional retirement plan, recent plans in the steel industry provide no benefits to the employee for other than normal and disability retirement.[3] However, although these plans cover large groups of employees, it cannot be said that they are representative of practice in business and industry.

Table III shows the distribution of 6,862 plans in broad

categories of vesting provisions. Immediate full vesting is provided for in only a small percentage of plans (fifteen per cent) covering a smaller percentage (three per cent) of employees. Some vesting is provided for in seventy-one per cent of the plans, but covering only forty-one per cent of the employees. There is no vesting whatsoever for fifty-six per cent of the employees.

Table IV shows the full vesting requirements in the Bankers Trust analysis of plans adopted or amended in the period 1943-1947. As is typical of vesting provisions, there are various requirements which may be used to limit employee qualification for vesting, the principal ones being age, service, participation in the retirement system, and combinations of these. About one-fourth of the plans provide for no vesting at all prior to normal retirement; twenty per cent relate vesting to service; 13½ per cent relate it to age, and thirty-five per cent to a combination of age and service. Where vesting is related to service, the majority of plans require fifteen years or less service for full vesting. Where it is related to age, the median is at about age fifty-five; where it is related to age and service, the typical age is fifty-five with ten to twenty years service required.

In general, employees do not become participants in a retirement system immediately upon entering the employ of a company, a factor that is important in determining the time at which he begins accruing benefits. This limitation on eligibility is usually set in order to reduce administrative costs in handling the accounts of the young-new employee group, which has a high rate of turnover. Table V

shows the eligibility requirement in the Bankers Trust survey plans. Almost one-half of the plans have no age requirement. The service requirement average is 2.7 years.

Table VI shows the eligibility requirements for 368 group annuity plans (eight plans with miscellaneous requirements not included) in the Social Security Administration survey. The service requirement averages out at 2.7 years, the same as in the Bankers Trust survey data.

Table VII contains an analysis of data derived from the Social Security Administration survey of group annuity plans. Here provisions are compiled separately for deferred full vesting (vesting is complete at a specified time, no vesting prior to that time) in Table VI-A, and for deferred graded vesting (vesting begins at a certain time after employment and the percentage vested increases thereafter until complete vesting is reached) in Table VI-B. It will be noted that in this data distinction is made between service requirement and participation in the retirement system. The tabulated data does not indicate age requirements but where they apply it is so indicated at column headings. Where both service and participation are factors, service, being the greater, is entered in the table. Of a total of 376 plans, 349 (93 per cent) provide for vesting and 27 (7 per cent) do not provide for vesting. Among the 349 plans 289 adapt themselves to analysis which produces the following summary data: 222 (77 per cent) have deferred full vesting at an average total length of service of twelve years (where applicable, participation has been corrected by addition of 2.7 years average service required prior to participation); 67 plans

(23 per cent) have graded vesting beginning at an average of approximately 8½ years and completing at an average of about 14½ years.

Vesting in the armed forces.

Prior to twenty years service, there is no vesting as such in the armed forces. As a matter of fact, except for disability and forced retirement, it cannot be said that personnel have any right to benefits. Enlisted personnel who do not complete twenty years service or are discharged as a result of court-martial lose all equity in the retirement system. The same is true of officers who resign or are dismissed as a result of court-martial. Personnel in these groups suffer a complete loss of deferred compensation. Officers who are forced out because of failure of selection prior to twenty years of service are allowed severance pay on a basis of two months base pay for each year of service, to a maximum of two years base pay (see Chapter VII). This severance pay may be considered, to a degree, a return of deferred wages. However, it is at least in part a payment of the cost of transition from military to civilian life. It should be noted that personnel of the armed forces are not eligible for participation in benefits under the Social Security Act.

In the interests of the personnel, of their dependents, and of society, there is strong justification for adoption of reasonable vesting provisions for: enlisted personnel not completing twenty years service, all personnel who are dismissed, officer personnel who resign at any time, and officer personnel forced to leave the service because of non-promotion in the first twenty years of service. In severance

pay, a distinction should be made between amounts intended to finance the changeover to a new way of life, and amounts intended as return of deferred wages. In appreciation of the vital importance of stability in the armed forces, hence the importance of discouraging separations influenced by a desire to obtain immediate cash benefits, when applicable payment of accrued benefits in the retirement system should be deferred. Particularly in the case of enlisted personnel, it may be found that many, who will not serve a full twenty years, will remain in the service for more than a single enlistment if some form of vesting is adopted. In a study conducted in 1947, it was found that only twelve per cent of Army and seven per cent of Navy, enlisted men remain in the service long enough to obtain retirement benefits.[4] Consideration should be given to inclusion of personnel under the provisions of the Social Security Act.

TABLE III

ANALYSIS OF VESTING PROVISIONS
IN PENSION PLANS PROCESSED BY
BUREAU OF INTERNAL REVENUE TO AUGUST 1946[a]

	Percentage of plans	(No. of plans)	Percentage of employees	(No. of employees)
Immediate full vesting	15%	(1016)	3%	(104,339)
Some vesting--but not immediate full	71	(4898)	41	(1,347,484)
No vesting	14	(948)	56	(1,838,785)
TOTAL	100%	(6862)	100%	(3,290,608)

Note: a. Derived from data contained in Table 4 of "Pension Trust Statistical Tables," Income Tax Unit, Bureau of Internal Revenue, undated.

TABLE IV

FULL VESTING PROVISIONS IN 289 RETIREMENT PLANS ANALYZED BY BANKERS TRUST COMPANY, 1948[a]

Vesting Provisions	Per cent of plans	(No. of plans)	Per cent of plans	(No. of plans)
No vesting	24%	(69)		
Full vesting on completion of a period of service[b]	20	(58)		
15 years or less			14%	(41)
20 years or more			6	(17)
Full vesting on attainment of age	13½	(39)		
Age 50			½	(1)
Age 55			6	(17)
Age 60			7	(21)
Full vesting on completion of service (10-20 yrs) and age[b]	35	(102)		
Age 45 or less			7	(21)
Age 50			4	(11)
Age 55			18	(53)
Age 60			6	(17)
Immediate full vesting	3½	(10)		
Vesting only on layoff	2½	(7)		
Data incomplete	1½	(4)		
TOTAL	100%	(289)		

Note: a. Source: 289 Retirement Plans, (New York: Bankers Trust Company, 1948), p. 8.

TABLE V

ELIGIBILITY REQUIREMENTS FOR MEMBERSHIP
IN 289 RETIREMENT PLANS,
BANKERS TRUST SURVEY[a]

Service Requirements[c]	Number of Plans by Age Requirements				
	None	Age 25 & under	Age 30	Age 35[b]	Total
None	37	2	4	1	44 (15%)
1 year	34	9	18	8	69 (24%)
2 years	7	2	10	4	23 (8%)
3 years	17	7	10	5	39 (14%)
4 years	1	-	1	-	2
5 years	42	8	37	24	111 (38%)
Special	--	-	1	-	1
TOTAL	138	28	81	42	289
Per cent	48%	10%	28%	14%	

Note: a. Source: 289 Retirement Plans, (New York: Bankers Trust Company, 1948), p. 7.
b. One plan has 40 year age requirement.
c. Average service requirement is 2.7 years.

TABLE VI

ELIGIBILITY REQUIREMENTS FOR MEMBERSHIP
IN 368 GROUP ANNUITY PLANS,
SOCIAL SECURITY ADMINISTRATION SURVEY[a]

Service Requirements	Number of Plans by Age Requirements				
	None	Age 25 & under	Age 30	Age 35	Total
None	10		1		11 (3%)
1 year or less	87	11	25	6	129 (35%)
2 years	33	7	5	1	46 (12%)
3 years	32	13	13	3	61 (17%)
4 years	2	1	1	1	5 (1%)
5 years	65	7	26	18	116 (32%)
TOTAL	229	39	71	29	368
Per cent	62%	11%	19%	8%	

Note: a. Source: Analysis of Recent Group Annuities by Social Security Administration, 1948, p. 7.
b. Average service requirement is 2.7 years.

TABLE VII

VESTING PROVISIONS IN 289 GROUP ANNUITY PLANS
ANALYZED BY SOCIAL SECURITY ADMINISTRATION[a]

Years	A Deferred Full Vesting Takes Place at[c]							B Deferred Graded Vesting begins at			
	I Serv.	II Part.	III Age & Serv.	IV Age & Part.	V Serv.& Part.[b]	VI Age, Serv. & Part.[b]	TOTAL	Serv.	Part.	Age & Serv.	TOTAL
1	1	2					3				0
2	1						1	1			1
3		2					2	1	1		2
5	9	19	4	6			38	13	17	1	31
6							0	1			1
7	2				1		3				0
8							0	1			1
10	16	13	29	7	4	8	77	13	10	6	29
11					1		1				0
15	14	3	28	2	12	4	63	1			1
20	10	2	9		7	4	32			1	1
25			1			1	2				0
TOTAL	53	41	71	15	25	17	222	31	28	8	67
Av.Yrs.[d]	12	8	13	8	15	14		7[d]	7[e]	11	8

Note: a. Derived from data in Analysis of Recent Group Annuities by Social Security Administration, 1948, pp. 54, 55.

b. Service, at the larger figure, is entered.

c. Average service requirement, Col. I, III, V, VI - 13.2 years.
Average participation requirement, Col. II, IV - 8.0 years; corrected for an average service requirement of 2.7 years (Table VII) - 10.7 years service.
Average of the above two figures is very close to 12 years.

d. Vesting completed at 13 years on the average.

e. Vesting completed at 16 years on the average.

CHAPTER V

FUNDING

Defined.

Funding refers to the manner of accumulating money for the future payment of retirement benefits.

A self-insured (self-administered or trusteed) plan is one in which a retirement trust fund is set up. The services of an actuary are employed for computation of amounts of money that must be accumulated in the fund in order to secure the present costs of benefits which are to be turned over to present employees at some future date. Included in this computation are such factors as mortality and disability in service, life expectancy after retirement, interest rates obtainable on invested funds, number of employees, eligibility provisions, salary scales, vesting provisions, retirement benefit rates, and administrative expenses. Based on these computations, funds are continuously accumulated in sufficient amounts to equal the present value of all future benefit payments. Actuarial computations must be made frequently, for a change in any of the factors noted above will change the funding requirements. A retirement system, which is so funded, is usually administered by a special board which may invest funds directly or through a banking institution.

An insured plan is one in which a contract is made with a private insurance company whereby contributions are paid to that company in return for which the company guarantees payment of benefits under the

provisions of the retirement program. All actuarial computations, clerical and administrative work, and direct payment of benefits are handled by the insurance company. The two most popular types of insured plans are the group annuity plan and the individual annuity plan. The group annuity contract covers a large group of employees, and units of deferred annuity for the group are purchased annually. Individual annuity plans provide for the purchase of policies on an individual basis and are usually used in companies employing small numbers of persons.

An unfunded plan is one in which there is no advance accumulation of money to meet the payment of future benefits. Rather, funds are disbursed annually to meet payments to persons already receiving benefits or expected to commence receiving benefits in the given year. This is also referred to as the cash-disbursement or pay-as-you-go method.

A partially funded plan is one in which some reserves are accumulated in advance, but not in sufficient amounts to anticipate the full cost of future benefits.

Considerations.

Perhaps the most important reason for the use of funding is the protection of the future benefits of the employee, an insurance against deferred compensation becoming cancelled compensation. Unless the benefits promised the employee are protected by cash reserves, there is danger that a change in business conditions, general or local, will wipe out the security on which the employee and his dependents have been counting. Among government plans, unless funding is employed, there is danger that the axe of economy will fall on appropriations for the payment of retirement benefits, particularly in depression times.

In its report, the President's steel fact-finding board included the following statement:[1]

> Social insurance and pensions should be considered a part of normal business costs to take care of temporary and permanent depreciation in the human "machine" in much the same way as provision is made for depreciation and insurance of plant and machinery. This obligation should be among the first charges on revenues.

The above treats retirement benefits as present costs, much as payment for wear and tear on plant equipment is considered a factor in present costs. A retirement fund, in this sense, is a depreciation reserve. In a funded retirement system, the costs are charged against the present generation, consumers or taxpayers, who receive the services; they are not charged against future generations who receive no services from retired personnel.

Another advantage in funding is the psychological and physical limit it places on the present generation's promising extravagant benefits to present employees to be paid later on. Funding is more likely to result in an intelligent approach to the granting of benefits. Merlam, upholding the use of funded plans, speaks of unfunded (cash disbursement) plans as having the "pleasing simplicity of a charge account",[2] one which, it might be added, will necessarily be paid by one's children and grandchildren. As an example, the pension costs of the war of 1812 were not completely paid off until 1945.

Practice.

In the early history of industrial retirement systems there were frequent cases of unfunded plans, and even today a large number of

recent union-negotiated pension plans make no mention of funding.[3] However, there are few cases of unfunded plans among modern retirement systems. Table VIII indicates the degree to which funding is used among a large portion of retirement systems. Among the more than seven thousand plans reviewed, only eleven are identified as being unfunded. Bureau of Internal Revenue requirements as to pension plans under which employer contributions may enjoy income tax exemption, has been an important factor in the widespread adoption of funding.

The retirement systems of the armed forces are entirely unfunded. Annual appropriations are made by Congress to cover each year's payment of benefits. Payment to retired personnel is made directly from department appropriations, except in the case of the reserve components of the Army (and Air Force) who are paid from Veteran's Administration appropriations.

Use of funding in the armed forces.

The Hook Commission finds no justification for use of a funded system in the armed forces.[4] Its principal arguments rest on (1) the taxing power of the government, which precludes the need for funding and (2) the impracticability of making the actuarial computations necessary to a fully funded system.

It is granted that the taxing and borrowing power of the government allows the use of a cash-disbursement system, with all its simplicity. However as noted above, use of such a system should be recognized as in the nature of paying off a "charge account" for services rendered twenty or more years ago. Further, the future

security of personnel rests with taxpayers and legislators whose attitudes toward retirement appropriations cannot with surety be foreseen.

The difficulty of actuarial computation is a more cogent argument against funding armed forces retirement systems. Changes in legislation, unpredictable variations in the size of the defense establishment, unforeseen wars with unknown numbers of deaths and disability cases preclude accurate actuarial calculations. The shifting payroll base of the services over a period of eighteen years (Table IX) indicates the degree to which sizes of the armed forces and of retirement lists cannot be predicted.

The impracticability of complete funding does not prevent the use of partial funding, from which the advantages of funding may be realized to a large degree. Relevant to this point is the fact that among the various government retirement systems there is no funding in any of the non-contributory plans, whereas there is at least partial funding in all the contributory systems. Funding, contributory systems, vesting, security and sound business principles all appear to be interrelated. The adoption of a partially funded retirement system for the armed forces is deserving of careful consideration.

stand forms in generation of normal consideration.

TABLE VIII

FUNDING IN THREE RETIREMENT SYSTEM SURVEYS

	Bureau of Internal Revenue[a]		Bankers Trust[b]	O'Neill[c]
	% (Plans)	% (Employees)	% (Plans)	% (Plans)
Insured - individual	60% (4,144)	6% (203,395)	4% (12)	25% (152)
Insured - group	21 (1,476)	27 (889,184)	31 (90)	51 (313)
Self-insured	10 (658)	58 (1,908,111)	51 (147)	20 (121)
Other or unidentified	9 (584)	9 (289,918)	10 (29)	4 (26)
Unfunded	0 (0)	0 (0)	4 (11)	0 (0)
TOTAL	100% (6,862)	100% (3,290,608)	100% (289)	100% (612)

Note: a. Source: "Pension Trust Statistical Tables," Income Tax Unit, Bureau of Internal Revenue, undated, Table IV.

b. Source: 289 Retirement Plans, (New York: Bankers Trust Company, 1948), p. 12.

c. Source: Hugh O'Neill, Modern Pension Plans, (New York: Prentice-Hall, Inc., 1947), p. 253-255.

TABLE IX

APPROPRIATIONS FOR PAY AND ALLOWANCES FOR ACTIVE AND RETIRED PERSONNEL AND PERCENTAGE RELATIONSHIPS[a]

Fiscal Year	Army and Air Force			Navy		
	Active (000)	Retired (000)	Retired as per cent of active	Active (000)	Retired (000)	Retired as per cent of active
1930	$ 113,759	$20,110	17.7	$ 113,645	$ 7,571	6.7
1931	113,739	20,391	17.9	115,400	7,455	6.5
1932	115,754	20,944	18.1	113,558	9,177	8.1
1933	106,389	20,256	19.0	110,905	10,220	9.2
1934	96,187	19,345	20.1	104,116	11,084	10.6
1935	109,439	23,444	21.4	98,938	10,636	10.7
1936	121,548	24,716	20.3	120,898	13,767	11.4
1937	130,499	25,802	19.8	130,905	15,189	11.6
1938	135,364	25,915	19.1	127,703	16,600	13.0
1939	139,012	26,775	19.3	143,320	18,014	12.6
1940	164,225	27,280	16.6	164,165	20,171	12.3
1941	526,824	28,223	5.4	208,196	21,333	10.2
1942	1,743,591	26,219	1.5	238,127	33,997	14.3
1943	6,423,902	29,765	.5	1,848,098	13,248	.7
1944	9,796,868	37,339	.4	3,715,042	15,834	.4
1945	12,323,148	37,000	.3	5,168,656	20,252	.4
1946	7,919,127	41,750	.5	4,055,534	38,938	1.0
1947	2,843,191	62,155	2.4	1,293,346	69,251	5.4
1948	1,981,630	80,204	4.0	945,567	103,157	10.9

Note: a. Source: Career Compensation for the Armed Forces, (Washington, D.C.: Government Printing Office, 1948), Appendix I, p. 195.

CHAPTER VI

SUPERANNUATION RETIREMENT

Purpose.

Both in civilian organizations and the defense establishment, the outstanding purpose of superannuation retirement, from the viewpoint of the organization, is the elimination of those who, because of declining mental or physical performance, cannot operate at normal efficiency and whose continued employment would lower the productivity of their organization. Another purpose, from the viewpoint of the individuals concerned, in retirement for age is to give human beings an opportunity to devote their closing years to private activities of which they have been deprived because of the nature of their occupation. This latter purpose is specially significant in the case of members of the armed forces and other organizations whose duties involve a relatively high percentage of time away from their families, and frequent change of locale. The prospect of comfortable and secure retirement is an important element in the total satisfaction of their careers.

Considerations in setting the age.

With the advance of age, physical performance declines more rapidly than does mental performance. However, in most physical occupations, as the age of the employee increases employees move into supervisory and indoor positions that require a lower level of physical stamina. For this reason, it is found that there is usually no distinction made between the two categories in setting the retirement age in

CHAPTER XI

[illegible]

[illegible]

business and industry. Retirement plans here provide for one normal retirement age without respect to the type of activity involved in the occupation.

In dealing with the problem of superannuation in the armed forces it is important to think in terms of the ultimate role of the organization, which is that of waging war. On a peacetime basis, it is probable that the needs of the armed forces are no more critical than in business and industry. However, unless the defense establishment structures its personnel requirements on a basis of wartime conditions, it will find itself ill-prepared for the rapid personnel expansion and the operations which are imperative to the successful prosecution of war. The organization must be built around personnel capable of highly sustained performance in combat conditions. This requirement might be likened to that demanded of the city fireman whose routine duties may not be very exacting, but who nevertheless must have the ability to fight fire successfully whenever he may be called upon to do so.

The duties of enlisted personnel in the armed forces involve considerably more physical exertion than do the duties of officer personnel. Granted that as an enlisted man rises in rank he takes on more supervisory duties, but throughout his career there is constant demand for a high level of bodily effort and in extended wartime operations this demand is a critical one. In the case of officer personnel, there is more room for adaption to the physical decline because of the reduced physical requirements in the senior ranks as compared with those in the junior ranks. For these reasons, the use of

separate superannuation retirement ages for the two groups is justified.

At what points in the decline of physical and/or mental performance should the retirement age be established? Unfortunately these points do not adapt themselves to precise definition. For one reason there is a lack of instruments capable of accurate measurement of the qualities concerned. Also there is a wide variability among individuals in the aging process; some few maintain a vigorous level of mental performance to the age of eighty, others fall off rapidly in their sixties. Lastly, there is wide variation in the requirements among the many occupations. The establishment of the superannuation age, then, is based largely on empirical factors, a recognition of the advantage of standardization, and, to some degree, on "public opinion."

Meriam suggests a variety of conditions that might be used in setting the retirement age: in the discretion of the employer, at the option of the employee, upon the reaching of a chronological age and/or upon the completion of a set length of service, and at some time between an optional minimum age and an arbitrary compulsory age.[1]

A long range factor in the retirement problem that has serious economic implications is the growing life span which is resulting in an increase in the proportion of population in the higher age group. For those aged sixty-five or over, in 1950 it is estimated that the proportion is 7.4 per cent. Estimates for subsequent periods are: 1960 at 8.2 to 9.1 per cent, 1980 at 8.8 to 12.2 per cent, and 2000 at 8.4 to 15.3 per cent.[2] Slichter and Baruch urge the raising of retirement ages to meet this increase in life span.[3] However, in connection

with this recommendation, consideration must be given to the effect on the overall unemployment picture of increasing the labor force.

Present practice.

Business and industry.

In business and industry, the age of sixty-five is used to fix retirement in all but a few cases. This age is used in 97 per cent of the plans in the Bankers Trust survey, in 97 per cent of those in the Social Security Administration group annuity survey, and in 95 per cent of those in the O'Neill survey.[4] Some plans, in addition to fixing an age requirement, include a minimum service requirement. For instance of the 612 plans in the O'Neill survey, twenty plans (about 3 per cent) prescribe minimum lengths of service, usually fifteen to twenty years.[5] Recently negotiated plans in the steel industry prescribe a minimum of fifteen years service.[6] Some plans make provision for continued service after normal retirement age, but usually only with company consent. In a 1948 survey conducted by the National Industrial Conference Board, it was found that in seven out of ten companies retirement was compulsory, and that such provisions were generally acceptable to employees.[7] However, the American Federation of Labor has recently advised its union negotiators that rigid compulsory retirement provisions should be resisted.[8]

Armed forces.

In the armed forces, a mandatory age of sixty-two years is set for officer personnel of the Army and Air Force of the ranks

of Brigadier General and below (sixty-four years for higher rank generals). For naval officers, the age is sixty-two for all ranks, except that the President may defer the retirement of not more than ten officers at a time to age sixty-four. It may be said that these mandatory age provisions apply only to the general/admiral ranks since forced attrition under the promotion laws will eliminate those not attaining to top rank prior to superannuation age. On a comparison basis, then, retirement for superannuation in the case of officers runs about three years younger than in business and industry. This differential is considered warranted in view of the critical conditions under which top-rank officers must be expected to operate in wartime.

For enlisted personnel, there is no mandatory age for retirement. However, provision is made for "voluntary" enlisted retirement after twenty years service or after thirty years service. The thirty year provision will be discussed in this chapter since, of the two, it most closely approximates superannuation retirement. (However, enlisted personnel seldom remain on active duty to this length of time because of the availability of retirement at twenty years service--to be discussed in Chapter VIII). The enlisted man, at thirty year retirement, would be at an age of about fifty years, some fifteen years junior to his retiring running mate in business and industry. A retirement age of fifty, in the case of the enlisted man, nevertheless seems reasonable. The enlisted man, even after attainment of senior non-commissioned grade, is expected to perform duties requiring a high degree of physical stamina. Especially under battle conditions, his duties are

such that he must be able to keep up with the youngster in field or sea-going operations. For the period between the time of assumed retirement at age fifty and that of normal civilian retirement at age sixty-five, consideration might be given to providing the enlisted man with employment in another branch of the government service (as was traditional in Germany, for instance) and deferring payment of benefits. In England, certain positions in the civil service are reserved for retired non-commissioned officers.[9] However, it is to be expected that objections might be raised to adopting such a procedure in the United States civil service on grounds that it would interfere with career service in the non-military branches.

Considerations in setting the amount of benefit.

The amount of the benefit should be such that the employee and his dependents are provided minimum subsistence at the very least. Beyond that, insofar as practicable, the benefit should recognize the standard of living of the employee and his dependents.

Because the benefit is deferred compensation, it appears reasonable that it should bear some relation to the compensation of the employee during his period of service. In establishing this relation, a percentage rate appeals to the sense of fairness of the employee and adapts itself to computational methods. The amount of compensation can be derived from a summation of all compensation received while in service, or from the multiplication of the average annual compensation by the number of years of service. More simply, the pay rate at time of retirement, or in the last few years of service, can be used as a base.

This latter procedure is adaptable only to salaried employees and even there gives rise to many objections unless all employees progress uniformly up the pay ladder throughout service. It does, however, better recognize the economic conditions, and the price index at the time of retirement. For instance, an employee who retires at a time when the cost of living has recently risen, or is rising, will suffer less from the decrease in purchasing value of the dollar if his benefit is related to his final pay rate than if it were related to his average pay rate. Going one step farther, retirement benefits might be tied in with the national price index. It is appreciated that these latter suggestions are generally not in line with sound funding principles, since funding methods cannot anticipate changes in rates of compensation or the cost of living.

Practice.

Business and industry.

Retirement benefit formulae in business and industry predominantly provide for a percentage relation to compensation. Of the 289 plans in the Bankers Trust survey, 280 provide for such a relation. Of these 280 plans 208 (74 per cent) consider the compensation throughout the period of service (a per cent figure times average annual compensation times number of years of service is the most common formula), while 72 plans (26 per cent) consider the compensation in final years of service.[10] Of the 612 plans in the O'Neill survey, 377 plans (46 per cent) apply a percentage rate to compensation times years of service, 66 (10 per cent) are money purchase plans in

which the benefit amounts to whatever annuity agreed contributions will buy from year to year.[11] It is common to find a different percentage formula for earnings up to $3,000 (the maximum annual amount recognized by Social Security) from that applied to amounts above $3,000. Even within these two groups there are widely variant formulae used. For instance, among 311 group annuity plans surveyed by the Social Security Administration, there are 17 different percentage figures used below $3,000 and 19 used above (Table XI).

A summary of the benefits (with Social Security included) in the Bankers Trust survey is shown in Table X. Benefits are expressed as percentages of average monthly compensation, in four different pay categories, with thirty years participation used as a "common denominator" in developing the comparison. Minimum and maximum benefit rates of all the plans and computed median benefit percentages are shown in the lower part of the same table. Median benefit percentages are 59, 45, 43 and 42 for average monthly compensations of 100, 250, 417 and 1250 dollars respectively. It is noted that benefit rates are highest for the lower paid employees. The computation of average benefit rates per year of service in 311 group annuity plans is shown in Table XI. Here separate percentages are shown for the first $250 of monthly compensation (0.85 per cent) and for amounts in excess of $250 (1.43 per cent). After correcting the first $250 compensation rate to include Social Security benefits, on a thirty year base, the percentages are 55, 50 and 45 per cent for average monthly compensation of 250, 417 and 1250 dollars respectively.

and 1750 dollars respectively.

Armed forces.

Retired pay in the armed forces is at a rate of 2½ per cent per year of service applied to final basic pay, with a maximum of 75 per cent. The retired pay data for a Rear Admiral (upper half) with forty years service and a chief petty officer with thirty years service are developed in Table XII and percentages have been corrected to a relation with average compensation. At first glance (Line D), it appears that both enjoy extremely high benefit rates (128 per cent and 106 per cent). When allowances are included as part of compensation in the computation, the percentages are 101 and 76 respectively (Line F). However, when retired pay percentages are related to average pay of civilians with comparable duties, the benefit rates fall to 45 per cent for the Rear Admiral and 79 per cent for the chief petty officer (Line J).

Comparison.

Comparing the last-named percentages with those derived from the Bankers Trust and Social Security Administration surveys, it appears that the benefit rate of the Rear Admiral is about the same as that of the comparable civilian for thirty years service, 45 per cent versus 44 per cent, while the chief petty officer enjoys a considerable advantage, 79 per cent versus 50 per cent (Line J vs. Lines K and L). For forty years service, the Rear Admiral appears at a considerable disadvantage to his civilian counterpart, 45 per cent versus 57 per cent (Line J vs. Lines M and N).

It is to be noted that many civilian plans place a

limitation on the amount of retirement benefit that high salaried employees may receive, a factor that bears on the interpretation of results of this comparison. Maximum benefit data from the Bankers Trust survey are contained in Table XIII. It is also noted that the Hook Commission in 1948 recommended salaries, for high ranking officers, which fell considerably below salaries of comparable civilians. However, the Commission felt that civilian salaries were at a peak and that a comparatively greater number of officer personnel could reach the top in the armed forces than could civilians in business and industry.

TABLE X

RETIREMENT BENEFITS EXPRESSED AS PERCENTAGE OF AVERAGE MONTHLY COMPENSATION IN 266 PLANS, BANKERS TRUST SURVEY[a]

Pension including Social Security as Percentage of Average Compensation (30 years service)	Percentage of 289 Plans in each Benefit category[a]			
	Average Monthly Compensation			
	$100	$250	$417	$1250
Under 35%	3.9%	5.5%	12.9%	35.2%
35% to 40%		7.0	9.0	6.2
40% to 45%	2.0	37.5	41.4	23.8
45% to 50%	15.6	10.2	18.8	20.3
50% to 55%	9.4	32.8	11.7	3.9
55% to 60%	26.2	2.7	3.5	9.0
60% to 65%	31.6	2.3	1.5	0.8
65% and over	11.3	2.0	1.2	0.8
	100%	100%	100%	100%

	Benefit expressed as Percentage of Average Monthly Compensation[b]			
	$100	$250	$417	$1250
Minimum	33%	27%	23%	10%
Maximum	[c]112	76	68	68
Approximate Median (30 yrs)	59	45	43	42
Median per cent per year	2.0	1.5	1.4	1.4
40 yrs x " " " "	80	60	56	56
31 yrs x " " " "	62	47	43	43
26 yrs x " " " "	52	39	36	36
21 yrs x " " " "	42	32	29	29
20 yrs x " " " "	40	30	28	28

Note: a. Source: 289 Retirement Plans, (New York: Bankers Trust Company, 1948), p. 10. Original table lists average annual compensation. Thirty-three plans, covering only employee earnings over $3,000 per year, not included.

b. Data derived from data above and from other data contained in Bankers Trust survey.

c. Minimum benefit percentage in plan concerned (no less than this percentage benefit is paid at this pay level).

TABLE XI

RETIREMENT BENEFITS EXPRESSED AS PERCENTAGE OF AVERAGE MONTHLY COMPENSATION DERIVED FROM BENEFIT PROVISIONS IN 311 PLANS SOCIAL SECURITY ADMINISTRATION SURVEY[a]

A Per cent	B On 1st $250 (No. plans)	A x B	C On Excess (No. plans)	A x C
0%	27	0.0	3%	0.0
½	13	6.5	6	3.0
9/16	1	0.6	-	-
3/5	1	0.6	-	-
2/3	4	2.7	1	0.7
3/4	100	75.0	6	4.5
4/5	2	1.6	1	0.8
5/6	1	0.8	-	-
7/8	1	0.9	1	0.9
15/16	1	0.9	-	-
1	132	132.0	59	59.0
1 1/8	1	1.1	2	2.3
1 1/6	-	0.0	1	1.2
1 1/5	1	1.2	1	1.2
1 1/4	7	8.8	7	8.8
1 1/3	2	2.7	2	2.7
1 2/5	0	0.0	3	4.2
1 1/2	12	18.0	155	232.5
1 3/4	0	0.0	6	10.5
1 3/5	0	0.0	1	1.6
1 2/3	0	0.0	2	3.3
2	5	10.0	53	106.0
2 1/2	0	0.0	1	2.5
Total	311	/263.4	311	/445.7
Average		.85%		1.43%

Participation	First $250 Average Plan	First $250 Social Security[b]	Total	Excess	Weighted Per cent $250	$417	$1250
40 yrs	34%	30%	64%	57%	64%	61%	58%
31 yrs	26	30	56	44	56	51	46
30 yrs	25	30	55	43	55	50	45
26 yrs	22	30	52	37	52	46	40
20 yrs	17	29	46	29	46	39	32
21 yrs	18	29	47	30	47	40	33

Note: a. Computed from benefit percentage data in Analysis of Recent Group Annuities by Social Security Administration, 1948, pp. 50-52.

b. Approximated from data in Handbook on Federal Old Age and Survivors Insurance, (Washington, D.C.: Government Printing Office, 1947), p. 97.

TABLE XII

PERCENTAGE BENEFITS OF REAR ADMIRAL (UPPER HALF) WITH 40 YEARS SERVICE AND CHIEF PETTY OFFICER WITH 30 YEARS SERVICE COMPARED WITH THOSE OF COMPARABLE CIVILIANS ON AVERAGE MONTHLY COMPENSATION BASIS[a]

	Rear Admiral	C.P.O.
A. Final basic pay per month	$955	$294
B. Retired pay (years service x 2½% x A - Maximum of 75%)	716	220
C. Average basic pay (Appendix A)	557	207
D. Retired pay (B) / Average basic pay (C)	128%	106%
E. Average basic pay plus allowances (Appendix A)	$708	$291
F. Retired pay (B) / Average basic pay plus allowances (E)	101%	76%
G. Average basic pay (C) / Final basic pay (A)	.58	.70
H. Assumed final basic pay of comparable civilian (Appendix B)	$2767	$396
I. Assumed average basic pay of comparable civilian (G x H)	1605	277
J. Retired pay (B) / Assumed average basic pay of comparable civilian (I)	45%	79%
K. Median percentage benefit of comparable civilian - 30 years (Table X)[b]	42%	45%
L. " " " " " - 30 years (Table XI)[b]	45%	55%
M. " " " " " - 40 years (Table X)[b]	56%	-
N. " " " " " - 40 years (Table XI)[b]	58%	-

Note: a. See Appendices A and B for pay data.
b. Social Security benefit included.

F. " - " " " "	49¢	53¢
E. " - 70 Items (Topic XI)$_{9}$	58¢	-
D. " - 70 Items (Topic X)$_{9}$	56¢	-
C. Standing Basic Desk (Appendix Y)	33¢	[illegible]
B. Swivel Desk Chair (Appendix Z)	72¢	1¢
A. Floor Basic Desk	0955	[illegible]

TABLE XIII

LIMITATIONS ON RETIREMENT BENEFITS TO HIGH SALARIED EMPLOYEES IN 289 RETIREMENT PLANS, BANKERS TRUST SURVEY[a]

Annual	Monthly	Number of plans	Per cent of plans
Maximum dollar pension			
$18,000 to $35,000	$1,500 to $2,917	31	11%
12,000 to 18,000	1,000 to 1,500	55	19
9,000 to 12,000	750 to 1,000	34	12
Less than 9,000	Less than 750	56	19
Maximum earnings recognized in determining pensions			
$30,000 to $50,000	$2,500 to $4,167	10	3½
20,000 to 30,000	1,667 to 2,500	12	4
10,000 to 20,000	833 to 1,667	12	4
Less than 10,000	Less than 833	1	½
Maximum pension as a percentage of compensation		3	1
No limitation as to maximum pension		75	26
	TOTAL	289	100%

Note: a. Source: 289 Retirement Plans, (New York: Bankers Trust Company, 1948), p. 11.

CHAPTER VII

PRE-RETIREMENT RETIREMENT AND SEPARATION OTHER THAN FOR DISABILITY

FORCED ATTRITION

Considerations.

Business and industry.

A business or industrial organization must adjust the size of its employee force to economic conditions. When business is "good", it can be expected that the number of persons employed will remain reasonably constant or increase. When business falls off, layoffs must be effected in order to adjust to the reduced demand for products or services. However, an employee who is discharged under such conditions remains eligible for re-employment with his former organization or may obtain employment in another organization which has need for his services.

The process of advancement to postions of higher responsibility is normally a "Yes or No" proposition, and of itself does not affect the employability of individuals. If a man is chosen, he moves up the ladder; if he is passed over, he continues in his former position. In this sense, so long as an employee satisfactorily performs the duties required of his present position, his failure of selection for advanced duties will not interfere with his continued employment.

Armed forces.

Just as industry must adjust to business conditions, so must the defense establishment adapt itself to international condi-

tions. When diplomacy seems unable to resolve problems between nations, when it appears more likely that violence will be used for the solution of these problems, the organization must increase the number of personnel employed. Conversely, when resort to violence is unlikely, there will be a cut-back in the number of persons in the armed forces. For officer personnel, this variability in employment will be absorbed in the promotion system; for enlisted personnel it will be taken care of through the recruitment program and qualifications for reenlistment.

Unlike organizations in business and industry, the armed forces in advancing their officer personnel up through the ranks employ an "Up or Out" system. If an officer fails twice of selection to a higher rank, however satisfactorily he may be performing the duties of his present rank, he may not continue in service but must be separated or retired. In order to have the vigorous and effective leadership at all ranks that is essential to military effectiveness, there must be a continuing flow of personnel, in at the bottom and out at all levels. This need was evidenced over a period of many years prior to the adoption of the present promotion system. In a sense, it may be said that superannuation takes place at all levels in the hierarchy. An officer separated from the active duty organization, is not redeployable in his former organization except in event of a national emergency, and he cannot properly employ his special abilities by bearing arms in the service of another nation.[1] If he has been retired, his employability in other government organizations is limited by dual compensation law.[2] If he is released with severance pay, such law does

not apply.

Meeting the problem in business and industry.

Retirement systems in business and industry meet the problem of forced separation in one of two ways. First, provision may be made for the employee through vesting, discussed in earlier chapter. The principle of vesting may be recognized either through the granting of a cash payment to the discharged employee or through the granting of a deferred annuity. Secondly, in the case of employees with relatively long service, the employee may be granted an "early retirement" benefit wherein he commences receiving an income immediately upon separation, but at an actuarially reduced rate.

Table XIV summarizes the early retirement provisions in the Bankers Trust survey. Of 278 plans on which data were available, there is provision for early retirement in 241 plans (86 per cent) under "forced attrition" conditions. Only 18 of the plans (7 per cent) provide for retirement at any time; 127 plans (46 per cent) require attainment of an age, usually fifty-five years; 92 plans (38 per cent) require both attainment of an age, usually fifty-five, and a minimum length of service, usually ten to twenty years.

Table XV shows the early retirement provisions among 376 group annuity plans analyzed by the Social Security Administration. Only 23 of these plans make no provision for early retirement or include disability as a requirement. There are 255 plans (68 per cent) with a normal retirement age of sixty-five which provide for ten year pre-normal retirement, giving an age of fifty-five as the early retirement time.

Including the plans which have both age and service requirements, 308 (82 per cent) provide for an early retirement age of fifty-five.

In the O'Neill survey (Table XVI), 500 (82 per cent) of 612 plans provide for early retirement. As in the two previously mentioned studies, the typical retirement age is fifty-five years.

Operation of the promotion system in the armed forces.

Table XVII summarizes the operation of the officer promotion system in the U.S. Navy, under the permanent provisions of Public Law 381, 80th Congress.[3] Column 1 shows the required distribution of all officers on the active list among the several ranks; column 2 shows the same distribution relative to a base of one thousand Ensigns and Lieutenants (junior grade).[4] Because of the decreasing number of officers allowed in successively higher ranks, attrition must take place from rank to rank (Columns 3 and 4). For instance, an attrition of about 53 per cent must take place in an original group of one thousand Ensigns and Lieutenants (junior grade) prior to reaching the rank of Lieutenant Commander. Some of this attrition will be through normal causes such as resignations, deaths and disabilities. The remaining attrition is accomplished through operation of selection boards. As groups of officers become eligible for promotion to the various ranks, they are considered by selection boards and the best qualified are chosen for advancement to the next higher rank, in numbers determined by the number of vacancies in the higher rank.[5] Each officer is considered by not more than two successive selection boards; officers failing of selection are considered as having been "passed over" and must

be discharged from the service (Pay Grades O-2 and O-3), or placed on the retired list (Pay Grades O-4, 5, 6). Columns 5 and 6 indicate the planned advancement of an officer who will advance to highest rank. Column 7 indicates the disposition of officers at the various levels who fail of selection for the next higher rank. Lieutenants, junior and senior grade, are discharged upon the completion of seven and thirteen years service, respectively, with severance pay. Officers of higher rank are placed on the retired list with retired pay. Columns 9 through 12 develop the pay for officers passed over at the various ranks, applying life expectancy to approximate age at separation, to a final value expressed in terms of post-active duty income per year of service rendered.

Comparison.

It is impracticable to compare the early retirement features applicable to armed forces with those in business and industry, because of inability to give quantitative weight to the planned forced attrition in the armed forces which does not exist in civilian organizations. This latter factor requires the provision of a liberal retirement system for prospective officers. As stated in the report of the Hoover Commission:[6]

> If the government wishes to draw men into a career service in which its interests dictate an early compulsory retirement age and disability retirement if physical and mental condition falls below a relatively high standard, it offers--it has to offer--comparatively high retirement benefits or pay.

The present pay schedule for all armed forces personnel is closely linked to that found in business and industry, with pay in the high ranks falling

below that in civilian organizations (Appendices B and C).

The liberality of dollar benefits to retired officers in Pay Grades O-4, 5 and 6 is indicated by the data developed in Tables XVII and XVIII. It is noted that the failure of selection to the rank of Lieutenant Commander makes a tremendous difference in the amount of post-active duty income (Column 11 of Table XVII).

A factor that enters into the consideration of benefits to members of the armed forces who are relieved from active duty is their employability in civilian organizations. For information on this subject, the reader is referred to a thesis written at this university.[7]

Although the forced attrition among enlisted personnel is of small magnitude, it should be noted that there is no provision for separation benefits, other than disability, for this group if total length of service is less than twenty years.

VOLUNTARY RETIREMENT AND SEPARATION

Requested by employee and approved by employer.

Business and industry.

Termination of employment resulting from the request of the employee and the approval of his employer is related to the early retirement features of retirement plans. Approval of the employer is presumably granted only when the termination of employment is in the best interests of the employing organization. In the Bankers Trust survey (Table XIV), of the 241 plans that provide for early retirement under normal conditions, 157 plans (65 per cent) require

Index of sentence is less than twenty years.

company approval. In the O'Neill survey (Table XVI), of 500 such plans, 382 plans (76 per cent) require company approval.

Armed forces.

Officers may be retired on request, subject to approval by higher authority, after twenty years service, with retired pay at the rate of 2½ per cent of final basic times the number of years of service, with a maximum of seventy-five per cent. This type of retirement originated prior to the adoption of the selection system procedure, and was designed for the purpose of eliminating "deadwood" in the officer ranks. With the adoption of systems of forced attrition, the need for this type of separation has decreased, although it was employed during the Thirties to reduce the hump in officer ranks caused by the influx of officers into the services during World War I. The granting of requests for voluntary retirement is usually based on the needs of the service. In 1949, the Army was not granting such requests in cases of less than thirty years service; the Navy was approving requests of line officers with the minimum of twenty years service, but was requiring medical officers to remain on active duty for thirty years. The benefits in this type of retirement are the same as for officers who are passed over and forced to retire under the promotion law, and generally apply to those in Pay Grades O-5 and 6 (Table XVII).

Enlisted personnel with twenty or more years of service may, upon request, and subject to approval by higher authority, be retired with pay at the rate of 2½ per cent of final basic pay times the number of years service with a maximum of seventy-five per cent.[8]

In the absence of a forced attrition system such as exists for officers, this type of retirement is the principal means of effecting a flow of personnel out of active duty at the top rank. Requests for retirement are almost invariably granted.

Comparison.

As in the case of forced attrition, discussed in the first section of this chapter, the benefits to armed forces personnel are much more liberal than for business and industrial employees. With regard to officer personnel, however, this liberality in voluntary retirement lacks the justification that is has under forced attrition. It is to be explained on historical grounds, dating from a time when voluntary retirement was made attractive in order to stimulate separations that could not be compelled, as now. Presumably, operation of the promotion law should now meet the special needs of the armed forces in maintaining competent leadership at all ranks. Undoubtedly, there are cases in which voluntary retirement is desirable, but the granting of the same liberal benefits to those who want to "get out" as to those who are forced out is of doubtful validity. As mentioned in the closing paragraphs of this chapter, it appears that some compromise should be made between the liberal voluntary retirement benefits and the lack of any benefits at all to those who separate themselves from the service by resignation.

In the case of enlisted personnel, the liberality of voluntary retirement benefits is more justifiable because of the absence of a forced attrition system. However, here too, a compromise

of the extremes of benefits may be in order.

Without approval of the employer.

Business and industry.

In separation that is effected without the employer's approval, the employee in business and industry may, through vesting, expect to retain an equity in the retirement fund upon meeting certain service and/or age conditions (Tables III through VII in Chapter IV). In a limited number of cases, the employee who "quits" may obtain early retirement benefits. Early retirement at the election of the employee is allowed in only 29 per cent of the plans in the Bankers Trust survey, and in 19 per cent of the plans in the O'Neill survey.

Armed forces.

Both the officer who resigns his commission and the enlisted man with less than twenty years service who does not reenlist, lose all equity in the retirement system.

Comparison.

Under these conditions, personnel of the armed forces are at a complete disadvantage. This restriction in benefits is a strong factor in "holding the employee", but from the viewpoints of society and of the individual employee it defeats the purposes of retirement systems.

Compromise in the armed forces.

Recognizing the paramount importance of the public interests in relation to national defense, the writer does not propose that is should

be "easy" for personnel to separate themselves from the defense establishment. At the same time, the door should not be shut to voluntary termination of employment to the degree that personnel who do leave the service of their own volition lose all equity in the retirement system. Those who are separated from the service under voluntary conditions, whether or not such separation is in the best interests of the service, should neither receive the liberal benefits of officers with twenty years service who are forced out under the selection system, nor should they receive nothing. In all cases the principles of vesting should be recognized. A reasonable compromise would be one under which the individual either receives an immediate benefit, at a reduced rate, or a deferred benefit at the full rate. By such a procedure, the opportunity to leave the service in order to gain immediate liberal benefits would be limited, and at the same time the right of personnel (and their dependents) to deferred wages would be recognized.

No separate section of this study is devoted to the problem of personnel separated from the services as a result of court-martial proceedings. Here too, the principles of vesting should be applied. Punishment for disciplinary offenses should not be visited on the innocent dependents of guilty service personnel through the complete denial of participation in the "retirement fund".

TABLE XIV

EARLY RETIREMENT PROVISIONS IN 278 RETIREMENT PLANS, BANKERS TRUST SURVEY[a]

Provision	Number of plans		
Only with company consent:			
After attaining age	90		
After completion of service	2		
After attaining age and completion of service	47		
Anytime	18		
		157	(56%)
At employee's election:			
After attaining age	37		
After completion of service	2		
After attaining age and completion of service	45		
		84	(30%)
Only for disability or hardship		35	(13%)
No provision		2	(1%)
	TOTAL	278	(100%)

Of the 137 (90 plus 37) plans providing for age only:

Age 55 is used in	103	plans	
" 60 " " "	21	"	
" 50 " " "	3	"	
TOTAL	127		

Of the 92 (47 plus 45) plans providing for age and service:

Age 55 is used in	72	plans	(Service requirement is 10
" 60 " " "	15	"	to 20 years, in general)
" 50 " " "	5	"	
TOTAL	92		

Note: a. Source: 269 Retirement Plans, (New York: Bankers Trust Company, 1948), p. 8.

Table 214
Some Institutions Reporting in 1948 Depression Study

Institution	Number of Items
Fair-ish Opening Courses:	
Auditing	12
Art exercise	14
Other scientific and manual activity	
Close examination of service	8
Other specialized use	20
By employer's direction:	
Close statistical map	17
Close compilation of service	8
Close statistical use not exploration	
Art exercise	16
Fair-ish Geometry or Arithmetic	35 (12%)
By erection	5 1 Oct
	89 (30%)

Of the 117 (40 item 17) items providing for use only:

Item	Number
Item 11 is item 5: 11) items	
" 10 " " 12 "	
" 12 " " 1 "	
" 20 " " 21 "	

Of the 21 (17 item 9) items providing for use only:

Item	Number
Item 11 is item 12 item	
" 10 " " 14 "	to 20 years, in general)
" 12 " " 1 "	

Bacon 6. Source: 100 Institutions I Know, (New York: Bonanza Trans Corporation, 1948), p. 6.

TABLE XV

EARLY RETIREMENT PROVISIONS IN 376 GROUP ANNUITY PLANS, SOCIAL SECURITY ADMINISTRATION SURVEY[a]

Years before normal retirement and other conditions	Normal Retirement Age			
	60	65	Other	Total
5 years	-	3	-	3 (1%)
10 years	3	255	6	264 (70%)
15 years	-	2	-	2 (1%)
Not specified	2	23	-	25 (6%)
10 years and years of participation or service	-	32	1	33 (9%)
10 years and disability or hardship	-	10	-	10 (3%)
10 years and years of service or disability	-	8	-	8 (2%)
Miscellaneous	-	25	1	26 (7%)
None	-	5	-	5 (1%)
TOTAL	5	363	8	376(100%)

Note: a. Source: Analysis of Recent Group Annuities, (Washington, D.C.: Social Security Administration, 1948), p. 11.

TABLE IX

Years before normal retirement	Number Retiring (Age)			
	60	61	Under 60	Total
5 years	-	1	-	3 (3%)
10 years	3	3%	6	6% (70%)
15 years	-	4	-	6 (3%)
Not eligible	2	13	-	29 (9%)
10 years and years of participation at earlier age	-	32	1	33 (9%)
10 years and flexibility as to years of service	-	17	-	20 (3%)
20 years	-	8	-	8 (2%)
Eligible	-	14	1	2% (7%)
Total	-	1	-	5 (1%)
TOTAL	5	363	8	376(100%)

Source: Industry Advisory Committee, Social Insurance, Table 11.

TABLE XVI

EARLY RETIREMENT PROVISIONS IN 612 RETIREMENT PLANS, O'NEILL SURVEY[a]

Type Provision[c]	Number of plans	
Early retirement	500	(82%)
" "	8[d]	(1%)
For disability only	26	(4%)
None	78	(13%)
	612	(100%)

Conditions for Early Retirement[b]	Number of plans	
With company consent	388	(78%)
At employee's election	83	(16%)
At election of either	14	(3%)
No data	15	(3%)
TOTAL	500	(100%)

Conditions for Early Retirement[c]

Years Service	Pre-normal Retirement 5 yrs	10 yrs	15 yrs	No reference to normal Retirement Age	No conditions specified	Misc. & No Info.	
None	21	253	4				
3		1					
5	3	3					
10	3	15		1			
15	6	11		3			
20	2	17		3			
25		4		1			
30	1	3		2			
Other		1					
Total	36	308	4	10	123	19	500
Per cent	7%	61%	1%	2%	25%	4%	100%

Note: a. Source: Hugh O'Neill, Modern Pension Plans, (New York: Prentice-Hall, Inc., 1947).
b. Table G-1 on p. 271.
c. Table G-3 on p. 275.
d. Specific provisions not available.
e. Derived from data in Table G-1, pp. 271-273.

		Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8			
Pay Grade	Rank	Distribution	1000 base distribution	Step Attrition[a]	Cumulative Attrition[b]	Normal Service in grade	Normal total service if selected	Total Service if Passed over	Per cent (2½ x No. Yrs) (Max. 75%)		Final Basic Pay	Ret P (Per
O-7, 8	Admiral	.75	19	-	98.1	-	-					
O-6	Captain	6.00	156	13.7	84.4	5 years	30 years	31 years[d]	75%	x	$698	$5
O-5	Commander	12.00	312	15.6	68.8	7 years	25 years	26 years[d]	65	x	585	3
O-4	Lt. Cdr.	18.00	467	15.5	53.3	6 years	18 years	20 years[d]	50	x	485	2
O-3	Lieutenant	24.75	643	17.6	35.7	6 years	12 years	13 years[c]	-		385	($9
O-2, 1	LTJG & Ensign[e]	38.50	1000	35.7	-	3 & 3 yrs.	3 & 3 yrs.	3 & 4 yrs[c]	-		292	(3
TOTAL		100.00	2600	98.1								

Note: a. Attrition between rank indicated and next higher rank.
b. Cumulative attrition by the time the rank indicated is reached.
c. Honorably discharged with severance pay--2½ months of final basic pay for each two months service; maximum of two years pay.
d. Placed on the retired list with pay equal to 2½% times final basic pay times number of years service.
e. Ensign is advanced to rank of LTJG upon the satisfactory completion of three years service and examination.

TABLE XVII

ATTRITION AND BENEFITS INCIDENT TO ADVANCEMENT
OF OFFICER PERSONNEL, U.S. NAVY, UNDER
PERMANENT PROVISIONS OF PUBLIC LAW 381, 80TH CONGRESS

)	Col. 9	Col. 10	Col. 11	
ired by Month)	Approx. Age at Separation	Life Expectancy (Months)	Expected Retired Income	Retired (separated) income per year of service
24	54	248	$129,952	$4192
80	49	294	111,720	4297
43	43	353	85,779	4289
140)[c]	36	-	(89,140)[c]	(703)
088)[c]	30	-	(3,088)[c]	(441)

TABLE XVIII

COMPARISON OF PERCENTAGE BENEFITS OF PASSED-OVER CAPTAINS, COMMANDERS, AND LIEUTENANT COMMANDERS WITH THOSE OF COMPARABLE CIVILIANS ON AVERAGE COMPENSATION BASIS

	Captain (30 yrs)	Comdr. (26 yrs)	Lt. Cdr. (20 yrs)
A. Final basic pay	$698	$584	$485
B. Retired pay (years service times 2½% times A. Maximum of 75%)	524	380	243
C. Average basic pay (Appendix A)	454	409	362
D. Retired pay (B) / Average basic pay (C)	115%	93%	67%
E. Average basic pay plus allowances (Appendix A)	$592	$542	$485
F. Retired pay (B) / Average basic pay and allowances (E)	89%	70%	50%
G. Average basic pay (C) / Final basic pay (A)	.65	.70	.75
H. Assumed final basic pay of comparable civilian (Appendix B)	$987	$619	$571
I. Assumed average basic pay of comparable civilian (G x H)	642	433	428
J. Retired pay (B) / Assumed average basic pay of comparable civilian (I)	82%	88%	57%
K. Median percentage benefit of comparable civilian (Table X)	42%	36%	28%
L. Median percentage benefit of comparable civilian (Table XI)	50%	46%	39%
M. Number of months retired officer may expect to draw retired pay (Table XVII, Col. 10)	248	294	353
N. Number of months civilian might expect to draw retired pay (Life expectancy at age 65)	160	160	160

CHAPTER VIII

DISABILITY AND SURVIVOR BENEFITS

Retirement and separation for disability.

General.

Disability refers to the impairment of the faculties of an individual, resulting from accident or disease. Disability may be partial or total, temporary or permanent. When the employee is permanently disabled to such a degree that his continued employment in the same job will lower the productivity of his organization, it is in the interest of the organization to give the employee a new position in which he can operate efficiently, or else terminate his employment. Where termination of employment becomes necessary, it is in the interests of the employee and society that provision be made for his security and that of his dependents.

Business and industry.

When necessary, the partially disabled employee in business and industry normally can be relocated in a position wherein his disability will not interfere with efficient job performance.

In cases of total permanent disability, termination of employment is the only solution. In retirement plans that provide for disability, the granting of benefits is usually governed by vesting and early retirement provisions in the plans, rather than by specific disability provisions. Of 313 group annuity plans in the O'Neill survey, only 14 make specific reference to the payment of disability benefits.

DIFFERENTIAL AND EQUATION EQUALS

Definitions and explanation for clarity.

General.

Disability refers to the impairment of the

Of 152 individual annuity plans, 58 plans (38 per cent) make specific provision for such benefits.[1]

Many companies provide contributory insurance plans which include coverage for disability. In Table XIX are listed provisions found in some selected group insurance plans. Of fifty employee-benefit plans in the steel industry, analyzed by the Social Security Administration, twenty-eight provide for permanent and total disability payments in amounts varying from $500 to $20,000.[2]

Armed forces.

Partial disability assumes greater importance in the armed forces than it does in business and industry because of the need for a consistently high standard of physical performance in military service. Many men with only partial disabilities, who would be retained if employed in civilian organizations, must be separated from the armed forces.

Under the provisions of the Career Compensation Act of 1949, conditions of retirement and separation for disability have been completely revised. After it appears probable that an individual has a disability to such an extent that he is not qualified to perform the duties of his rank, the degree of disability is determined on a percentage impairment basis by the Veterans' Administration. A given disability percentage represents the degree to which the capacities of a disabled individual fall below that of a normal person. For disabilities of less than thirty per cent, the officer or enlisted man concerned is separated from the service with severance pay (two months'

active duty basic pay per year of service to a maximum of two years basic pay) unless he has more than twenty years service, in which case he may retire at the 2½ per cent rate. For a disability of thirty per cent or more, the individual is retired, with a choice of pay equal to the disability percentage multiplied by his basic pay or pay at the 2½ per cent rate. An exception is made in the case of the individual with less than eight years service whose disability is not the result of performance of actual duty.[3] In this case he is separated with severance pay. If there is any question as to the permanence of the disability, the serviceman is placed on a temporary disability retirement for a maximum of five years. During this period he is given periodical physical examinations, and prior to the termination of the time period, decision must be made as to whether or not his active service will be terminated.

Comparison.

The conditions under which personnel must be separated differ to such a degree between the two categories (armed forces versus business and industry) as to make impracticable any direct comparison. One factor that should be considered in evaluating the amount of benefits that are granted armed forces personnel is the possible employability of the partially disabled serviceman in civilian life.

Survivor benefits.

General.

Survivor benefits refer to payments made, in a

retirement system, to the dependents of deceased employees. Recognizing the importance of security to employee dependents, the inclusion of death benefits may be considered an important part of a retirement system. Whether or not a retirement system provides for payment of survivor benefits depends on the vesting practice in that system. Usually where death benefits are vested, a distinction is made between death before retirement and death after retirement.

Business and industry.

Death benefits prior to retirement are rarely provided as an integral part of group annuity or self-administered plans, although such provision is frequently made in the case of individual annuity plans. In the O'Neill survey (Table XX), none of the 313 group annuity plans provides for benefits on death prior to retirement. Of 121 self-administered plans, 31 plans (26 per cent) provide for death benefits, and of 152 individual annuity plans 150 (99 per cent) make such a provision. Many organizations whose retirement plans allow no pre-retirement survivorship benefits, carry group life insurance, usually contributory. Of the 313 corporations with group annuity plans, at least 235 (75 per cent) offer such insurance. Of the 121 corporations with self-administered plans, at least 91 (75 per cent) offer group life insurance.

Some plans make provision for the payment of survivor benefits in event of the death of an employee after retirement. Under individual annuity plans, it is common to guarantee payment of a minimum total retired benefit. If the retired employee should die prior

to payment of this minimum, the balance is paid to his designated beneficiary. Under group annuity plans, the survivor may receive the amount of the employee's contributions minus the amount of retirement benefits paid prior to the death of the employee. Often in group annuity plans, the retiring employee may elect a reduced benefit rate so that after his death payments will continue to his widow for the duration of her life. The writer has no information to offer on self-administered plans. Under the group life insurance plans mentioned in the preceding section, retiring employees normally have the privilege of continuing to carry after retirement all or part of the insurance with the full amount of premiums paid by themselves.

Armed forces.

Dependents of persons dying on active duty are entitled to lump sum payment of six months' active duty pay. If the deceased has served in time of war, dependents also are entitled to a monthly pension (Table XXI).

In no case are dependents of retired or separated non-veterans entitled to survivor benefits. When death of a World War II veteran, not on active duty, occurs, survivorship benefits are payable only if the deceased had been retired for disability.

Service personnel are eligible to purchase up to $10,000 worth of government life insurance which may be continued after separation from the armed forces.

Comparison.

The armed forces appear to be on a par with business

and industry in the matter of survivor benefits if the availability of life insurance is considered. However, certain improvements in the armed forces retirement syster are considered advisable. First, in appreciation of the importance of providing security for dependents, it is advisable to make compulsory the purchase of government life insurance. Second, the effectiveness of the retirement system would be greatly increased by allowing the option of electing the payment of retired benefits at a reduced rate, with provision for continuing payment of benefits to dependents after death (joint and survivorship annuity). It is noted that among the retirement systems administered by the federal government survivorship annuities are now available under all of the contributory systems.[4]

TABLE XIX

CONTRIBUTORY GROUP INSURANCE PLANS
FOR DEATH AND DISABILITY (NON-OCCUPATIONAL)

Company	Wage or Salary Range (Monthly)	Life Insurance	Total and Permanent Disability
Cudahy Packing	Up to $435	$1,000 to 10,000	$1,000 to 10,000
Buda	" " 200	1,000 to 1,500	1,000 to 1,500[b]
Stand. Oil of Calif.	" " 500	2,000 to 6,000[a]	- - - - - -
Lockheed Aircraft	" " 800	500 to 25,000	500 to 10,000[b]
Boeing Airplane	" " 500	2,500 to 10,000[a]	2,500 to 10,000[b]
Raytheon M'f'g.	" " 500	2,000 to 9,000[a]	- - - - - -
Douglas Aircraft	" " 800	2,000 to 10,000	2,000 to 10,000[b]
Hormel	" " 625	3,000 to 15,000	- - - - - -
Nat'l Cash Register	- - - - -	2,000	2,000[b]
Yale & Towne M'f'g.	- - - - -	1,500	1,500[b]

Note: a. In addition, limited amounts of free insurance are provided by company.
b. Partial disability, involving loss of one eye or limb, also covered to one-half amount indicated.

TABLE III

CONSTRUCTION ABOUT AN AIRPORT FLOOR
AND DRAWN AND PLEASANTLY [illegible]

Company	Type or Policy Number	Life Insurance	Total and Permanent Disability
Fidelity Casualty	Ty or Life	$2,000 to $4,000	$1,000 to $2,000
Home	" " 6500	1,000 to 1,500	1,500 to 3,000
Travel Ctf of Hartf.	" " 500	2,000 to 4,000	- - - - -
Lexington Alrcraft	" " 600	500 to 1,000	500 to 10,000
Boeing Airplane	" " 500	2,500 to 12,500	2,500 to 10,000
Matteson B.T.C.	" " 500	2,000 to 4,000	- - - - -
Douglas Aircraft	" " 800	2,000 to 12,000	2,000 to 10,000
Lumbermens	" " 1249	3,000 to 15,000	- - - - -
Nat'l Cash Register	- - - - -	1,500	2,000
Yale & Towne C.T.B.	- - - - -	1,500	1,500

Total: By Utilities, limited amounts of free insurance are provided by company.

b. Travel Insurance, limited time of one day or less, also obtained in one-half cases indicated.

TABLE XX

PRE-RETIREMENT SURVIVOR BENEFITS AND LIFE INSURANCE
IN 612 CORPORATIONS HAVING RETIREMENT SYSTEMS, O'NEILL SURVEY[a]

Conditions	313 Group Annuity	152 Individual Annuity	121 Self-Administered
	Companies	Companies	Companies
Years service	-	3 (2%)	15 (12%)
Age and service	-	-	3 (3%)
Other	-	2 (2%)	-
Non-immediate vesting	-	145 (95%)	13 (11%)
Group Life Insurance	235[b] (75%)	-	91[b] (75%)
TOTAL	75%	99%	101%

Note: a. Source: Hugh O'Neill, Modern Pension Plans, pp. 320-322.
b. Minimum figures. Additional companies, not identified, may have group life insurance plans.

TABLE XXI

MONTHLY RATES OF COMPENSATION TO WIDOWS AND CHILDREN OF DECEASED VETERANS OF WORLD WAR II

Condition	Widow[b]	Widow & 1 child[b]	Each Additional Child[b]
Death occurs in wartime or was a result of wartime service	$75	$105	$25
Death occurs in peacetime while on active duty	60	84	20

Note: a. Source: House Committee Print No. 173, 81st Congress, 1st Session, Addendum Section, p. 32.

b. Provision also made for dependent children alone and for dependent parents.
Except in the case of death resulting from wartime service, no benefits are payable after separation unless the deceased was retired for disability.

CHAPTER IX

SUMMARY AND CONCLUSIONS

History.

Formal retirement plans have been in existence in business and industry since 1874, but their development was relatively slow until about 1930. During the recent war years, there was a tremendous increase in the number of plans, principally as a result of the allowance to corporations of income tax deductions on profits turned over to retirement systems, and also as a result of the high excess profits taxes in effect during those years. Although retirement benefits have been given the armed forces since the days of the Revolution, it was not until the latter part of the nineteenth century that benefits for other than disability were extended to cover the majority of military personnel.

Purpose.

Retirement systems offer advantages to the employer, to the employee and to society. The employer is benefitted by having a convenient and fair method of disposing of employees who are superannuated or disabled. A retirement system also serves the purpose of attracting personnel to his organization and influencing them to remain in his service. In the armed forces, retirement serves the important additional purpose of complementing the promotion system under which large percentages of officer personnel must be eliminated at all ranks. To the employee, the principal value of a retirement system lies in the security it provides for him and his dependents. Society places a value

CHAPTER IX

on retirement programs because they reduce the need for public and private charity and increase the number of independent and self-respecting members. In this sense, it is preferable that membership by employees in retirement systems be compulsory. Because of the stability of income provided through such systems, the economic health of the nation is supported.

Payment for retirement systems.

The costs of retirement systems may be absorbed in increased productive efficiency. Where this absorption does not take place, the consumer pays for unabsorbed costs. According to the deferred wage theory, which this writer supports, retirement benefits are actual compensation to the employee, payment of which is deferred. In this sense, it is the employee who pays the costs, whether the plan be contributory or non-contributory. This theory, supported by respected writers in the retirement field, is closely related to the practice of vesting.

Contributory versus non-contributory systems.

Whether a retirement system should be contributory or not, is a highly controversial question. A contributory system is advantageous to the employee because the surety of receiving benefits is greater; there is greater likelihood of vesting in case of early separation from the employing organization; provision for voluntary contributions are more likely; greater employee control of the system may be expected; there is higher probability of varying equities upon retirement

through optional choice of methods of benefit payment. However, the employee may expect to pay higher income taxes under a contributory system, because his contributions are not deductible from taxable income, whereas those of the employer are deductible. From the employer's viewpoint, the contributory system offers the advantage of limiting excessive retirement benefit demands on the part of the employee, and of increasing employee interest in the program. However, the administrative costs of the employer, in a contributory system, will be higher; the employer will probably be less able to retain the employee, and will probably receive less credit for the benefits. Society finds the contributory system advantageous because it is more likely to guarantee benefits through the use of sound actuarial funding methods and also because of the opportunity for voluntary contributions on the part of the employee.

Early retirement plans in business and industry were predominantly non-contributory, but during the 1930's and up until World War II, new plans adopted were predominantly contributory. During the war, there was a swing to non-contributory plans because employers with high profits took advantage of the tax exemption privilege applying to retirement plan contributions. A trend back to contributory plans took place after the close of the war and, findings of the President's 1949 steel fact-finding board notwithstanding, this trend appears to have continued into 1949. The majority of plans in existence are non-contributory, but on a basis of employees covered, the differential is small.

Among contributory plans in business and industry, it is typical for employees to pay about two per cent on the first $3,000 of compensation (the limit for Social Security payroll deductions), and about four per cent on that portion of compensation over $3,000. The rate of employee contributions is likely to be reflected in the amount of benefits provided.

The writer believes that the adoption of a contributory system would be advantageous to the personnel of the armed forces, although it would result, at least temporarily, in a decrease in take-home pay.

Vesting.

Vesting is the transfer to the employee, prior to normal retirement, of title to money paid into the retirement system on his account by the employer. This transfer may take place immediately upon an employee's joining the system, or it may be deferred. It may take place gradually over a period of time (graded vesting), or all at one time (full vesting).

Vesting recognizes retirement funds as being deferred compensation, belonging to the employee. Where there is vesting, an employee who leaves an organization before he has gained the right to normal or early retirement benefits may be paid a lump sum or may receive a deferred annuity.

Vesting is desirable because it favors the security of the employee and facilitates the mobility of labor. From the employer's viewpoint, it is undesirable because it decreases his ability to hold

the employee in service.

The large majority of plans in business and industry provide for vesting. Conditions for vesting are usually based on years of service, on age, or on age and service. Service requirements vary from one to twenty-five years, age requirements vary from thirty-five to sixty. Only a small percentage of plans allow immediate full vesting.

It cannot be said that there is any vesting in the armed forces except through benefits provided under disability and forced retirement. There is no provision for payment of "deferred wages" to officers who resign their commissions; for enlisted men with less than twenty years service who do not reenlist; or for persons dismissed from the service as a result of court-martial action.

Funding.

Funding refers to the advance accumulation of money for the future payment of retirement benefits. When there is no funding, a plan is said to be an unfunded or cash disbursement plan. A plan is partially funded when it makes some, but not complete, advance accumulation toward the payment of future benefits.

Only under a funded retirement system are society and the employee literally guaranteed that promised benefits will be paid. Funding is also in accordance with sound business principles because the retirement fund represents a depreciation reserve on the human "machine", similar to that provided for actual plant machinery. Costs are paid by the present generation, the beneficiary of the services rendered. Lastly, funding has an important psychological advantage in

relating benefits more closely to the prospective capacity of employers to pay them.

Among pension plans in business and industry, funding is almost universal. The retirement system of the armed forces, on the other hand, is entirely unfunded.

The Hook Commission considered a funded system in the armed forces to be impracticable because of the difficulty of actuarial computation, and considered it unnecessary because of the taxing power of the government. The writer recognizes the former difficulty but does not consider the government's power of taxation to be a valid reason for not using a funded system. The interests of armed forces personnel and society would be better recognized if a partially funded system, such as is used in other federal retirement plans, were adopted. At present, there is no guarantee that future legislation, such as might be enacted during a period of severe government economy, will not reduce promised benefits.

Superannuation retirement.

Superannuation retirement is necessary to eliminate those employees whose mental or physical performance has declined to such an extent as to adversely affect the productive efficiency of the employing organization.

Usually no distinction is made between physical and mental superannuation retirement in business and industry because aging employees, who in their earlier years were engaged mainly in physical work, can be transferred to supervisory and indoor positions. The situation is

benefits.

approximated in the case of armed forces officer personnel, but the duties of the enlisted man require high physical stamina throughout his career. In the armed forces, then, a distinction between physical and mental superannuation is justified. In business and industry the retirement age is sixty-five years in over ninety-five per cent of the plans considered in this study. In the armed forces the age is sixty-two years for officers, with few exceptions. Because of the existence of a forced attrition system used in advancement from rank to rank, only officers in the senior rank reach the superannuation age. For enlisted personnel there is no mandatory age retirement. Because of the absence of such provision, voluntary retirement under the thirty year law is covered in the chapter on superannuation retirement. However, most enlisted men take advantage of retirement under a twenty year law (discussed in Chapter VII). Because of the requirements of military service in time of war, the superannuation age differentials between armed forces personnel and those in business and industry are considered justified.

The superannuation retirement benefit should be such that it provides minimum subsistence to the employee and his dependents. Preferably, it should recognize their standard of living.

Since the retirement benefit is deferred compensation, it is reasonable that it should bear some relation to compensation during employment. Use of a percentage rate multiplied by years of service appeals to the sense of fairness to the employee. Good practice in funding usually requires that benefits be related to average annual

compensation. Where employees advance up the salary scale at a uniform rate throughout their service, benefits based on final compensation are in reasonable accordance with funding principles. Also, benefits based on final compensation recognize the purchasing power of the dollar at the time of retirement. The retired employee would enjoy the greatest security if benefits were geared to the changing price index.

In business and industry the most common practice is to relate benefits, on a percentage basis, to average annual compensation. Because of the availability of Social Security benefits on annual compensation up to $3,000, different benefit rates are usually used on compensation above and below this amount. In the armed forces, the benefit is equal to final basic pay times years of service times 2½ per cent, with a maximum of 75 per cent of basic pay.

On a dollar comparison basis, it would appear that the superannuated officer enjoys a great advantage over his civilian counterpart. However, when allowance is made for the lower service pay received by a Rear Admiral (Brigadier General), as compared with the pay of a civilian with comparable duties, the benefits favor the civilian.

The enlisted man who retires at senior rank, with thirty years service, enjoys a considerable dollar advantage over his civilian counterpart.

Pre-superannuation retirement and separation other than for disability.

Forced attrition.

Organizations in business and industry must adjust

the size of their employee forces as dictated by the volume of business. When business falls off, forced attrition of personnel must be effected so that the organization can maintain its economic stability. Similarly, the personnel of the armed forces is dictated by the international situation. When diplomatic solution of international problems is effective and resort to violence is unlikely, the nation reduces the size of its defense establishment.

Forced attrition resulting from the system of promotion is peculiar to the armed forces. In order to maintain vigorous and effective leadership within the officer ranks, it has been found necessary to employ a system of promotion that involves forced attrition at all ranks except the lowest. By 1957, the promotion system will be functioning in such a way that out of each thousand officers in the two junior ranks (combined length of service--six years), only two will attain to admiral/general rank (length of service in rank six to ten years).

Retirement systems in business and industry meet the forced attrition problem either through vesting or early retirement. Early retirement refers to pre-superannuation retirement, under which an immediate benefit is paid at an actuarially reduced rate. For early retirement, most plans require either attainment of an age (usually fifty-five years), or attainment of an age (usually fifty-five) and a given length of service (ten to twenty years).

In the armed forces, officers not selected for advancement to the top three ranks (Rear Admiral, Captain and Commander

in the Navy) are retired at 2½ per cent of final basic pay times number of years of service. In the lower ranks, passed over officers are separated with severance pay.

Because of the differing conditions under which forced attrition takes place, it is considered impracticable to make a comparison between benefits in business and industry and the apparently liberal benefits in the armed forces.

There is no provision for forced attrition among enlisted personnel except through the rejection of applications for reenlistment.

Voluntary retirement--requested by employee and approved by employer.

In business and industry, retirement that is requested by employees comes under the heading of early retirement. Among plans which provide for early retirement, the majority require company approval which is presumably granted only when the termination of employment is in the best interests of the employing organization.

Officer and enlisted personnel in the armed forces may, upon request, and subject to approval by higher authority, be retired after twenty years service at the 2½ per cent rate. In the absence of a forced attrition system, such requests are invariably granted to enlisted personnel. For officer personnel, such requests are handled on a basis of the needs of the service.

As in the case of forced attrition for officer personnel, benefits under voluntary retirement are extremely liberal.

Although this type of retirement reduces the need for forced attrition in the promotion system, the liberal benefits do not appear to be as justifiable as they are in case of forced retirement. For enlisted personnel, the liberal benefits are more readily justified because of the absence of a forced attrition system.

Retirement and separation without the approval of employer, and resignations.

In business and industry, the employee who quits may expect to retain an equity in the retirement fund through vesting provisions. Only twenty to thirty per cent of retirement plans allow early retirement without approval of the employer.

The officer who resigns his commission and the enlisted man with less than twenty years service who does not reenlist, lose all equity in the retirement system. Likewise, all equity is lost by those who are dismissed from the service as a result of court-martial action.

Compromise in the armed forces.

It seems reasonable that some compromise should be made between the liberal benefits received by those who are voluntarily retired and the total absence of benefits to those mentioned in the preceding paragraph. It is recommended that in both cases the individual receive either an immediate benefit, at a reduced rate, or a deferred benefit at the full rate. The principles of vesting should be recognized in all separations.

Disability and survivor benefits.

In business and industry, separation because of partial disability is normally unnecessary because of the ability of employing organizations to provide positions which meet the disability limitations of the employee concerned. In the armed forces, on the other hand, the necessity for a high standard of physical performance is such that continued employment of the partially disabled would often be detrimental to military effectiveness.

Survivor benefits are usually provided for in business and industry either through the retirement plan or through contributory group life insurance. In the armed forces, the equivalent of six months pay is given to survivors of persons who die while on active duty. Survivors of veterans of World War II are eligible for a pension if death occurs while on active duty or as a result of wartime service. The armed forces retirement system could be improved if retiring personnel were allowed the option of electing a reduced benefit which would continue throughout his or her life and that of his wife or husband.

Concluding remarks.

In this study, the writer has tried to demonstrate that retirement systems serve important purposes both in the armed forces and in business and industry. Where practicable, direct comparisons have been made between the retirement systems in these organizations. However, special conditions in the defense establishment, such as forced attrition and high physical requirements, prevent a valid comparison of many factors. The writer believes that the armed forces retirement system would be improved by a change to a contributory, partially funded

Dr Bastiano and Princess Mascarpino passing at Durant
Elementary in Jacobia Heights attended the opening of Bastiano
Gymnasium by Jacobia Heights alumni Dean Elementary Principal
of the Academies Commercial. Dr Jim Young Indiana, Dr Dr Alpha Bank, Dra
Jacobia Heights Elementary Principal Principal is most Dis-
tinguished Life a Life Extension Professor Is most Dis-
tinguished Life a Life Extension Professor Is most Dis-
tinguished Life a Life Extension Professor

system; by the extension of the principles of vesting to cover all personnel with more than five years service; and by the inclusion of optional methods of receiving retirement income. These modifications are considered to be both fair and practicable, and in the best interests of military personnel, the government, and society.

REFERENCES

CHAPTER I

1 Sumner H. Slichter, "The Pressing Problems of Old Age Security", The New York Times Magazine Section, October 16, 1949.

2 From a memorandum from the Bureau of Efficiency to the President, dated December 16, 1929 quoted in Hearings before a Subcommittee of the Committee on Armed Services, House of Representatives, Eighty-first Congress, First Session, on H.R. 2553, p. 1806.

3 Herbert L. Jamison, "Practical Aspects of Establishing and Administering Pension Plans", American Management Association, Personnel Series, No. 126, 1949, p. 4.

4 News items in the New York Herald Tribune, October 6, 1949 and April 2, 1950.

5 289 Retirement Plans, (1948 edition; New York: Bankers Trust Company, 1948), 106 pp.

6 Analysis of Recent Group Annuities Supplementing Retirement Benefits under Old Age and Survivors Insurance. Actuarial Study No. 25, February 1948. (Washington, D.C.: Social Security Administration, 1948), 56 pp.

7 Fifty Employee-Benefit Plans in the Basic Steel Industry, (Washington, D.C.: Social Security Administration, 1947), 103 pp.

8 Hugh O'Neill, Modern Pension Plans, (New York: Prentice-Hall, Inc., 1947), 382 pp.

9 John R. Mackroth, "A Critical Comparative Study of Military and Civilian Retirement Plans", (unpublished Master's thesis, The Ohio State University, Columbus, 1948), 123 pp.

10 Jack S. Blocker, "An Analysis of the Superannuation Provisions of the United States Army Retirement System", (unpublished Master's thesis, The Ohio State University, Columbus, 1948), p. 8.

11 For a discussion of the general shift from "status" to "contract" see Henry Sumner Maine, Ancient Law, Its Connection with the Early History of Society, and Its Relation to Modern Ideas. (New York: Cockroft and Company, undated), Chapter V.

12 Lewis Meriam, Principles Governing the Retirement of Public

BIBLIOGRAPHY

1 Charles W. Stillwater, "The Investing Problems of Old Line Companies", The New York Times Investing Section, October 16, 1949.

2 Item a conversation from the Journal of Investments by the Investment Board, dated December 15, 1947 quoted in Underlying Factors a Discussion of the Securities in Common Ownership, Journal of Investments, Light-Stone Companies, Price Bearing, pp. cit., p. 1000.

3 Herbert E. Purdum, "Practical Aspects of Depreciation and Obsolescence Policies Under Stock", Journal Engineering Association, Chemical Section, Dec. 1949, pp. 6.

4 News items in the New York Herald Tribune, October 5, 1947 and April 3, 1950.

5 See Engineering Digest, 1948 edition, New York: McGraw Hill Company, 1948), 100 pp.

6 Analysis of Common Stock Industry Engineering Securities Securities under the new Securities Legislation. Industrial Study No. 21, Philadelphia 1950. Investigation, Inc., Capital Securities Exchange, 1950), 36 pp.

7 Elroy Engineer-Herald Plans in the Basic Steel Industry, (Pamphlet, N.Y.: Capital Securities Exchange, 1950), 153 pp.

8 Mark Cronin, Engine Theories Plans, (New York: Investment-Hall, Inc., 1950), 320 pp.

9 John D. Hathaway, "A Critical Comparative Study of Utility and Steel Stocks Securities Laws", (unpublished Master's thesis, The City University, Columbus, 1948), 129 pp.

10 Jack C. Kinaker, The Analysis of the Investment Problems of the United States Many Engineers Series", (unpublished Master's thesis, The City University, Columbus, 1950), pp. 6.

11 For a discussion of the general utility from "stocks" to "securities" see Henry Thorne Stein, Additional Law, Its Interaction with the Utility Industry of Securities, and Its Relation to Modern Times. (New York: Investment and Company, updated), Chapter 7.

12 Louis Lester, Fundamentals Governing the Regulation of Public

Employees, (New York: D. Appleton and Company, 1918) p. xi.

13 Henry S. Pritchett, The Social Philosophy of Pensions, (New York: The Carnegie Foundation for the Advancement of Teaching, 1930), p. 3.

14 Blocker, op. cit., p. 8.

15 Pritchett, op. cit., p. 3.

16 Murray W. Latimer, Industrial Pension Systems in the United States and Canada, Vol. I. (New York: Industrial Relations Counselors, Inc., 1932), p. 18.

17 Ibid., p. 20.

18 Ibid., p. 20.

19 Ibid., p. 22.

20 Ibid., pp. 39, 40.

21 Ibid., p. 27.

22 Ibid., p. 42.

23 Pension Trust Statistical Tables, (Washington, D.C.: Income Tax Unit, Bureau of Internal Revenue, undated), Table I.

24 "Two Way Pressure for Pensions", U.S. News and World Report, November 11, 1949.

25 Historical data, unless otherwise indicated, is derived from Historical Notes on Naval Retirement, Navy Department, undated, and testimony contained in Hearings on H.R. 2553 (supra footnote 2), pp 1862-1863, 1897-1898, 1909-1910.

26 William Henry Glasson, Federal Military Pensions in the United States, (New York: Oxford University Press, 1918), p. 20.

27 Armed Forces Talk No. 297, (Washington, D.C.: Office of the Secretary of Defense, 1949).

28 Glasson, op. cit. p. 41.

CHAPTER II

1 Facts about the Benefit Plan for Bell System Men and Women,

(American Telephone and Telegraph Company, undated), p. 12.

2 General Motors Employees Retirement Program, (General Motors Corporation, 1946), p. 3.

3 The Hoover Commission Report on Organization of the Executive Branch of the Government, (New York: McGraw Hill Book Company, 1949), p. 509.

4 Lewis Meriam, Principles Governing the Retirement of Public Employees, (New York: D. Appleton and Company, 1918), p. 388.

5 From a memorandum from the Secretary of Defense for the Chairman, Advisory Commission on Service Pay, dated February 9, 1948, quoted in Career Compensation for the Uniformed Forces, (Washington, D.C.: Government Printing Office, 1948), p. vi.

6 David Lawrence, "Today in Washington", The Columbus Dispatch, September 26, 1949.

7 "Pensions; Not IF but HOW", Fortune Magazine, November, 1949, p. 82.

8 Cited in Clarence M. Winslow, Profit Sharing and Pension Plans, (New York: Commerce Clearing House, Inc., 1946), p. 20.

9 Meriam, op. cit. pp. 295, 25.

10 Meyer M. Goldstein, "Planning a Pension System", The Columbus Dispatch, October 1, 1949.

11 Clarence M. Winslow, Profit Sharing and Pension Plans, (New York: Commerce Clearing House, Inc., 1946), p. 34.

12 Hugh O'Neill, Modern Pension Plans, (New York: Prentice-Hall, Inc., 1947), p. 8.

13 "Pensions : Not IF but HOW", op. cit., p. 222.

14 Advertisement in The Columbus Dispatch, February 5, 1950.

15 Your Retirement Plan, (Midland, Michigan: The Dow Chemical Company, undated).

16 Meriam, op. cit., p. 387.

17 Henry S. Pritchett, The Social Philosophy of Pensions, (New York: The Carnegie Foundation for the Advancement of Teaching, 1930), p. 9.

18 From a memorandum from the Secretary of Defense, op. cit., p. vii.

19 From text of the board's report, The New York Herald Tribune, September 11, 1949.

CHAPTER III

1 News item in Time Magazine, October 10, 1949.

2 Letter from the President to the Secretary of Defense, dated March 5, 1949, quoted in House Armed Services Subcommittee Hearings on H.R. 2953, Eighty-first Congress, First Session, p. 1493.

3 An Analysis of Past, Present and Proposed Pay Scales of the Uniformed Services prepared by Joint Army-Navy Personnel Board Pay Committee, 1947, Section III, paragraph 64 and 78.

4 Career Compensation for the Armed Forces, (Washington, D.C.: U.S. Government Printing Office, 1948), p. 39.

5 From text of the board's report, The New York Herald Tribune, September 11, 1949.

6 Testimony of Colonel Melvin J. Maas, former U.S. Congressman, quoted in House Armed Services Subcommittee Hearings on H.R. 2553, Eighty-first Congress, First Session, p. 2147

7 "Retirement Plans in Collective Bargaining", American Federation of Labor Research Report, October 1949.

8 Ralph C. Davis, Industrial Organization and Management, (New York: Harper Bros., 1940), p. 539.

9 Herbert L. Jamison, "Practical Aspects of Establishing and Administering Pension Plans", American Management Association, Personnel Series No. 126, 1949, p. 6.

10 Ibid., p. 6.

11 Fifty Employee Benefit Plans in the Basic Steel Industry, (Washington, D.C.: Social Security Administration, 1948), p. 37.

12 Outline of Federal Retirement Systems, (Washington, D.C.: Social Security Administration, 1948), pp. 75, 145.

13 Ibid.

14 289 Retirement Plans, (1948 Edition; New York: Bankers Trust Company, 1948), p. 9.

15 Jamison, op. cit., p. 6.

CHAPTER IV

1 Meyer M. Goldstein, "Overhauling Pension and Profit Sharing Plans", American Management Association, Personnel Series, No. 54, 1946, p. 31.

2 "Retirement Plans in Collective Bargaining", Part IV, American Federation of Labor Research Report, October, 1949.

3 Negotiated Pension Plans, (Washington, D.C.: The Bureau of National Affairs, Inc., 1949), pp. 3, 107, 108.

4 Report of Joint Army-Navy Personnel Board Pay Committee, 1947, p. 85.

CHAPTER V

1 Report of the President's steel fact-finding board quoted in The New York Herald Tribune, September 11, 1949.

2 Lewis Meriam, Principles Governing the Retirement of Public Employees, (New York: D. Appleton and Company, 1918), p. 328.

3 Negotiated Pension Plans, (Washington, D.C.: The Bureau of National Affairs, Inc., 1949), p. 13.

4 Career Compensation for the Armed Forces, (Washington, D.C.: Government Printing Office, 1948), p. 40 and Appendix M, pp. 189, 190, 194.

CHAPTER VI

1 Lewis Meriam, Principles Governing the Retirement of Public Employees, (New York: D. Appleton and Company, 1918), Chapter V.

2 Long Range Cost Estimates for Expanded Coverage and Liberalized Benefits Proposed to the Old Age and Survivors Insurance System by H.R. 2893, (Washington, D.C.: Social Security Administration, 1949), p. 5.

3 Sumner H. Slichter, "The Pressing Problems of Old Age Security", The New York Times Magazine Section, October 16, 1949; and Editorial in The New York Herald Tribune, January 4, 1950.

4 289 Retirement Plans, (New York: Bankers Trust Company, 1948), p. 7; Analysis of Recent Group Annuities, (Washington, D.C.: Social Security Administration, 1948), p. 12; and Hugh O'Neill, Modern Pension Plans, (New York: Prentice-Hall, Inc., 1947), p. 269.

5 Hugh O'Neill, op. cit., p. 268.

6 Negotiated Pension Plans, (Washington, D.C.: The Bureau of National Affairs, Inc., 1949), p. 6.

7 Herbert L. Jamison, "Practical Aspects of Establishing and Administering Pension Plans", American Management Association, Personnel Series, No. 126, 1949, p. 12.

8 "Retirement Plans in Collective Bargaining", Part III, American Federation of Labor Research Report, September, 1949.

9 For a discussion of inter-department transfer involving military personnel, see Lewis Meriam, op. cit., pp. 116-118.

10 289 Retirement Plans, op. cit., p. 11.

11 Hugh O'Neill, op. cit., derived from data in Tables H and J.

CHAPTER VII

1 A retired officer is subject to recall to active duty in event of a national emergency.

2 With few exceptions, a retired officer is prohibited from holding a civilian position or office with the Federal government where either his retired pay or the compensation in the latter position amounts to more than $2,500 per year.

3 This refers to Title I of the law under which the Navy must stabilize prior to 1957. The stabilization is being accomplished gradually and attrition at present is considerably less than provided for in the permanent provisions of the law.

4 The required distribution in the Army and Air Force is 0.75, 8, 14, 19, 23 and 36.

5 If appropriations are available, The Secretaries of the Army

3 Eugene E. Hilgard, "The Pension Problem of Old Age Security", The New York Times Magazine Section, December 14, 1941; and Hilgard to The New York Mutual Trustee, January 4, 1939.

4 <u>389 Employees Plans</u>. (New York: Research Study Company, 1941), p. 71 and Max Weil v. Commissioner, 1940). p. 341 and Max Weil v. Commissioner, Pension Trustee Cases, (New York: Prentice-Hall, Inc., 1941), p. 369.

5 Hugo O'Neill, op. cit., p. 209.

6 <u>Competitive Pension Plans</u>, (Washington, D.C.: The Bureau of National Affairs, Inc., 1941), p. 6.

7 Bureau E. Jenkins, "Practical Aspects of Profitsharing and Retirement Pension Plans", <u>American Management Association, Personnel Series</u>, No. 100, 1941, p. 12.

8 "Retirement Plans in Collective Bargaining", Part III, <u>American Federation of Labor Pamphlet Series</u>, September, 1941.

9 For a discussion of Union-Department structure including military personnel, see Lewis Brown, op. cit., pp. 113-132.

10 <u>389 Employees Plans</u>, op. cit., p. 13.

11 Hugo O'Neill, op. cit., derived from data in Tables 8 and 9.

CHAPTER VIII

1 A radical effect is required to result in saving help in every or a material emergency.

2 With the exception, a retired officer or physician from might obtain a civilian position or action with the federal government where his retired pay or the compensation in the Public position amounts to more than $3,000 per year.

3 This refers to Title I of the Law under which the Navy made its original payment in 1937. The administration is being accomplished practically not existing prior to that law.

4 The required distribution is the Army and Air Force is 2.5%, 3, 3½, 4, 4½ and 5%.

5 It appears this available. The conservative of the Long

and the Air Force may advance officers into ranks up to Lieutenant Colonel without respect to vacancies.

6 The Hoover Commission Report on Organization of the Executive Branch of the Government, (New York: McGraw Hill Book Co., 1949), p. 507.

7 Robert B. Bretland, "Some Aspects of the Problems of Readjustment Education and Job Placement of Retiring Naval Officers", (unpublished Master's Thesis, The Ohio State University, Columbus, 1949).

8 Naval enlisted personnel are transferred to the Fleet Reserve with "retainer pay" until a total of thirty years service (active duty plus Fleet Reserve duty) is rendered, at which time they are retired.

CHAPTER VIII

1 Hugh O'Neill, Modern Pension Plans, (New York: Prentice-Hall, Inc., 1947), pp. 322-324.

2 Fifty Employee-Benefit Plans in the Basic Steel Industry, (Washington, D.C.: Social Security Administration, 1947), p. 12.

3 Those with eight or more years of service, receive retired pay whether the disability occurs off the job or on the job. However, no serviceman is eligible for retired or severance pay in the case of a disability resulting from intentional misconduct or willful neglect.

4 Outline of Federal Retirement Systems, (Washington, D.C.: Social Security Administration, 1948), pp. 75, 145.

BIBLIOGRAPHY

A. BOOKS

Bureau of National Affairs, Handbook for Pension Planning. Washington, D.C.: Bureau of National Affairs, Inc., 1949. 363 pp.

Bureau of National Affairs, Negotiated Pension Plans. Washington, D.C.: Bureau of National Affairs, Inc., 1949. 248 pp.

Davis, Ralph C., Industrial Organization and Management. New York: Harper Bros., 1940. 636 pp.

Glasson, William Henry, Federal Military Pensions in the United States. New York: Oxford University Press, 1918. 298 pp.

Latimer, Murray W., Industrial Pension Systems in the United States and Canada, Vol. I. New York: Industrial Relations Counselors, Inc., 1932. 567 pp.

Maine, Henry Sumner, Ancient Law, Its Connection with the Early History of Society, and Its Relation to Modern Ideas. New York: Cockroft & Co., undated. 314 pp.

McGraw-Hill Book Company, The Hoover Commission Report on Organization of the Executive Branch of the Government. New York: McGraw-Hill Book Co., 1949. 524 pp.

Meriam, Lewis, Principles Governing the Retirement of Public Employees. New York: D. Appleton and Company, 1918. 476 pp.

National Industrial Conference Board, Industrial Pensions in the United States. New York: National Industrial Conference Board, Inc., 1925. 157 pp.

O'Neill, Hugh, Modern Pension Plans: Principles and Practices. New York: Prentice-Hall, Inc., 1947. 382 pp.

Pritchett, Henry S., The Social Philosophy of Pensions. New York: The Carnegie Foundation for the Advancement of Teaching, 1930. 85 pp.

Winslow, Clarence M., Profit Sharing and Pension Plans. New York: Commerce Clearing House, Inc., 1946. 272 pp.

Wyatt, Birchard W., Private Group Retirement Plans. Washington, D.C.: Graphic Arts Press, 1936. 145 pp.

Bureau of National Affairs, Business and the Consumer Interest. Washington, D.C.: Bureau of National Affairs, Inc., 1967. 212 pp.

Bureau of National Affairs, Government Regulation Digest. Washington, D.C.: Bureau of National Affairs, Inc., 1967. 238 pp.

Burke, Emily C., Traditional Investments and Investments. New York: Harper Bros., 1953. 256 pp.

Clemens, William Henry, Personal Selling Practices in the United States. New York: Oxford University Press, 1954. 400 pp.

Lazarus, Harvey R., Industrial Planning Reviewed in the United States and Canada. Vol. I. New York: Industrial Technology Foundation, 1966. 1026. 347 pp.

Blake, Glenn Warren, Business Law, the Connection with the World History of Society, and its Role in Future Life. New York: Harper & Bros., Medford. 212 pp.

Bureau-Hill Book Company, The Bureau Conference Manual on Practical Aspects of the Investing Public of the Government. New York: Bureau-Hill Book Co., 1961. 254 pp.

Bureau, Lewis, Principles Governing the Enforcement of Public Policies. New York: E. Ingleton and Company, 1954. 476 pp.

National Industrial Conference Board, Integrated Features in the Total Picture. New York: National Industrial Conference Board, Inc., 1962. 157 pp.

Crowell, Hugh, Modern Theories Figure Principles and Practices. New York: Prentice-Hall, Inc., 1954. 301 pp.

Patterson, Percy H., The Social Philosophy of Business. New York: The Commerce Standards for the Advancement of Business, 1954. 61 pp.

Rawlins, Clarence L., Public Service and Regular Plan. New York: Commerce Clearing House, Inc., 1954. 111 pp.

Clark, Lewis H., Consumer Behavior and Economic Life. Washington, D.C.: Bureau of National Affairs, Inc., 1967. 212 pp.

B. PAMPHLETS AND REPORTS

Advisory Commission on Service Pay, Career Compensation for the Uniformed Forces, A Report and Recommendation for the Secretary of Defense. Washington, D.C.: Government Printing Office, 1948. 66 pp., and Appendix 245 pp.

American Telephone and Telegraph Company, Facts About the Benefit Plan for Bell System Men and Women. Undated. 20 pp.

Bankers Trust Company, 289 Retirement Plans. New York: Bankers Trust Company, 1948. 106 pp.

Bureau of Internal Revenue, Income Tax Unit, Pension Trust Statistical Tables. Washington, D.C.: Bureau of Internal Revenue, undated. 5 pp.

Department of Defense Armed Forces Talk No. 297. 1949. 11 pp.

The Dow Chemical Company, Your Retirement Plan. Undated. 23 pp.

General Motors Corporation, General Motors Employees Retirement Program. 1946. 52 pp.

Joint Army-Navy Personnel Board Pay Committee, An Analysis of Past, Present and Proposed Pay Scales of the Uniformed Services. 1947. 87 pp.

Navy Department, Historical Notes on Naval Retirement. Washington, D.C.: Navy Department, undated. 7 pp.

Social Security Administration, Analysis of Recent Group Annuities Supplementing Retirement Benefits under Old Age and Survivors Insurance. (Actuarial Study No. 25). Washington, D.C.: Social Security Administration, 1948. 56 pp.

Social Security Administration, Fifty Employee Benefit Plans in the Basic Steel Industry. Washington, D.C.: Social Security Administration, 1947. 103 pp.

Social Security Administration, Long Range Cost Estimates for Expanded Coverage and Liberalized Benefits Proposed to the Old Age and Survivors Insurance System by H.R. 2893. Washington, D.C.: Social Security Administration, 1949. 29 pp.

Social Security Administration, Outline of Federal Retirement Systems. Washington, D.C.: Social Security Administration, 1948. 145 pp.

B. PAMPHLETS AND REPORTS

Advisory Committee on Service Pay. Current Developments for the Uni-
formed Forces, a Report and Recommendations for the Improvement of
Service. Washington, D.C.: Government Printing Office, 1948.
46 pp., and appendix (4) pp.

American Telephone and Telegraph Company. Facts About Its Benefit Plan
for Part-Payment Pay and Wages. [n.p.n.], n.d. 20 pp.

Business Trend Survey. 1948 Supplement Issue. New York: Business Trend
Company, 1948. 184 pp.

Bureau of Labor-Management Relations. Issues for Talk. Chapter Trade Publication
Series. Washington, D.C.: Bureau of Labor-Management Relations, n.d.
5 pp.

Department of Defense Joint Press Release No. 377. 1949. 11 pp.

The Job Classical Company. Five Preliminary Title. Undated. 47 pp.

Personal Service Corporation. Personal Service Professional Training
Title. 19 pp.

Price Stabilization Personnel Board Per Questions. An Analysis of Data,
Proposed and Proposed for Review of the Stabilized Services. 1947.
37 pp.

Navy Department. Principles Bureau on Basic Personnel. Washington, D.C.:
Navy Department, Undated. 7 pp.

Social Security Administration, Children of Persons Having Possible
Dependents Entitlement Benefits under Old Age and Survivors In-
surance. Informational Memo No. 41. Washington, D.C.: Social
Security Administration, 1948. 15 pp.

Social Security Administration. Fifth Business Benefit Times in the
Basic Annual Interval. Washington, D.C.: Social Security Admin-
istration, 1947. 113 pp.

Social Security Administration. Some Ideas Underlying the Social
Insurance and Allowance Benefits Proposed in the 81st and 82nd
Congress Insurance Issues in the U.S. Washington, D.C.: Social
Security Administration, 1947. 46 pp.

Social Security Administration. Outline of Federal Unemployment Insurance.
Washington, D.C.: Social Security Administration, 1948. 142 pp.

C. PERIODICAL ARTICLES

American Federation of Labor, "Retirement Plans in Collective Bargaining", Parts I to VII, American Federation of Labor Research Report, June 1949 - February, 1950.

Cowdrick, E.S., "Pensions: A Problem of Management", American Management Association Personnel Series, No. 75, 1928.

Goldstein, Meyer M., "Overhauling Pension and Profit Sharing Plans", American Management Association Personnel Series, No. 54, 1946.

Goldstein, Meyer M., "Planning a Pension System", The Columbus Dispatch, October 1, 1949.

Jamison, Herbert L., "Practical Aspects of Establishing and Administering Pension Plans," American Management Association, Personnel Series, No. 126, 1949.

Lawrence, David, "Today in Washington," The Columbus Dispatch, September 26, 1949.

"Pensions - Not IF but HOW," Fortune Magazine, November, 1949.

Slichter, Sumner H., "The Pressing Problems of Old Age Security," The New York Times Magazine Section, October 16, 1949.

D. LAWS AND HEARINGS ON PROPOSED LAWS

Career Compensation Act of 1949, Public Law 351, 81st Congress, First Session.

Officer Personnel Act of 1947, Public Law 381, 80th Congress, First Session.

Hearings Before a Subcommittee of the Committee on Armed Forces, House of Representatives, Eighty-first Congress, First Session, on H.R. 2553. Washington, D.C.: Government Printing Office, 1949. 873 pp.

Hearings Before the Committee on Armed Services, U.S. Senate, Eighty-first Congress, First Session, on H.R. 5007. Washington, D.C.: Government Printing Office, 1949. 377 pp.

E. UNPUBLISHED MATERIALS

Blocker, Jack S., "An Analysis of the Superannuation Provisions of the

United States Army Retirement System," Unpublished Master's Thesis, The Ohio State University, Columbus, 1948. 87 pp.

Bretland, Robert E., "Some Aspects of the Problems of Readjustment Education and Job Placement of Retiring Naval Officers," Unpublished Master's Thesis, The Ohio State University, Columbus, 1950.

Mackroth, John R., "A Critical Comparative Study of Military and Civilian Retirement Plans," Unpublished Master's Thesis, The Ohio State University, Columbus, 1948. 123 pp.

F. NEWSPAPERS AND NEWS MAGAZINES

The Army-Navy-Air Force Register, April 9, 1949.

The Columbus Dispatch, February 5, 1950.

The New York Herald Tribune, September 11, 1949; October 6, 1949; January 4, 1950; April 2, 1950.

Time Magazine, October 10, 1949.

U.S. News and World Report, November 11, 1949.

Y.T. Dove and Paula Jo Long, November 13, 1949.

APPENDIX A

CAREER PAY COMPUTATION FOR OFFICER ADVANCEMENT UNDER PERMANENT PROVISIONS OF PUBLIC LAW 381, 80TH CONGRESS AND ASSUMED ADVANCEMENT FOR ENLISTED PERSONNEL (ON MONTHLY BASIS)

	Officer (40 years)				Enlisted (30 years)			
Year	Pay Grade	Navy Rank	Pay	Allowance[a]	Pay Grade	Navy Rate	Pay	Allowance[b]
1	O-1	Ensign	$214	$ 42	E-1	S.R.	$ 75	$ 32
2	"	"	214	42	E-2	S.A.	83	32
3	"	"	228	42	"	"	90	32
4	O-2	LTJG	264	124	E-3	S.N.	103	32
5	"	"	278	125	"	"	110	32
6	"	"	278	125	"	"	110	32
7	O-3	LT	342	132	E-4	PO3	140	32
8	"	"	342	132	"	"	140	100
9	"	"	356	132	"	"	147	"
10	"	"	356	132	E-5	PO2	169	"
11	"	"	370	132	"	"	176	"
12	"	"	370	132	"	"	176	"
13	O-4	LCDR	427	147	E-6	PO1	206	"
14	"	"	428	147	"	"	206	"
15	"	"	442	147	"	"	213	"
16	"	"	442	147	"	"	213	"
17	"	"	456	147	E-7	CPO	250	"
18	"	"	456	147	"	"	250	"
19	O-5	CDR	527	162	"	"	265	"
20	"	"	527	162	"	"	265	"
21	"	"	527	162	"	"	265	"
22	"	"	527	162	"	"	265	"
23	"	"	556	162	"	"	279	"
24	"	"	556	162	"	"	279	"
25	"	"	556	162	"	"	279	"
26	O-6	CAPT	641	162	"	"	279	"
27	"	"	670	162	"	"	294	"
28	"	"	670	162	"	"	294	"
29	"	"	670	162	"	"	294	"
30	"	"	670	162	"	"	294	"
31	O-7	RADM(lower	826	192				
32	"	" half)	826	192				
33	"	"	826	192				
34	"	"	826	192				
35	"	"	826	192				
36	O-8	RADM(upper	955	192				
37	"	half)	955	192				
38	"	"	955	192				
39	"	"	955	192				
40	"	"	955	192				
TOTAL			$22,266	$6,038			$6,209	$2,524
Aver. per mo.			557	161			207	84
Aver. (pay and allowances per mo.			$708				$291	

COMPUTATIONS FOR PASSED OVER OFFICERS

LT. CDR.	PAY	ALLOWANCES	TOTAL
18 years (subtotal)	$6,274	$2,174	
2 years additional	968	294	
20 years (Total)	$7,242	$2,468	
Average	362	123	$485
COMMANDER			
25 years (subtotal)	10,040	3,308	
1 year additional	584	162	
26 years (Total)	$10,624	$3,470	
Average	409	133	542
CAPTAIN			
30 years (subtotal)	13,377	4,142	
1 year additional	698	138	
31 years (Total)	$14,075	$4,280	
Average	454	138	$592

Note: a. Includes quarters and subsistence; Ensign with no dependents, dependents for higher ranks; hazard-incentive (as flight and submarine) pay, value of medical care, laundry service, recreational facilities and haircuts not considered.

b. Includes quarters allowance only and assumes dependents only after seven years service. Hazard-incentive (as flight and submarine) pay, sea and foreign pay, reenlistment allowances, lodging on station in first seven years, medical care, laundry service, recreational facilities and haircuts not considered.

APPENDIX B

COMPARISON OF PAY IN ARMED FORCES AND IN BUSINESS AND INDUSTRY FOR COMPARABLE WORK[a]

Pay Grade	Rank	High	Low	Weighted Average	Percentage Relation Navy/Civil
O-8	Major General/Rear Admiral (upper)				
	Civilian	$3393	$2083	$2767	35%
	Armed forces basic pay[b]	955	955	955	
	" " " "				
	and allowances[c]	1147	1147	1147	41
O-7	Brigadier General/Rear Admiral (lower)				
	Civilian	2292	1250	1902	
	Armed forces basic pay[b]	826	826	826	43
	" " " "				
	and allowances[c]	1018	1018	1018	54
O-6	Colonel/Captain				
	Civilian	1923	498	987	
	Armed forces basic pay[b]	670	641	667	67
	" " " "				
	and allowances[c]	832	803	829	84
O-5	Lt. Colonel/Commander				
	Civilian	1667	368	619	
	Armed forces basic pay[b]	556	527	539	87
	" " " "				
	and allowances[c]	718	689	701	113
O-4	Major/Lt. Commander				
	Civilian	938	416	571	
	Armed forces basic pay[b]	456	427	442	77
	" " " "				
	and allowances[c]	574	569	586	103
O-3	Captain/Lieutenant				
	Civilian	675	350	515	
	Armed forces basic pay[b]	370	342	356	69
	" " " "				
	and allowances[c]	502	474	488	95
O-2	Lieutenant/Lieutenant (junior grade)				
	Civilian	675	250	387	
	Armed forces basic pay[b]	278	264	273	71
	" " " "				
	and allowances[c]	402	388	397	103
E-7	Chief Petty Officer (30 years)				
	Civilian	610	225	396	
	Armed forces basic pay[b]	294	250	275	69
	" " " "				
	and quarters allowance[d]	394	354	375	95

Note: a. Data on civilian pay from Career Compensation for the Armed Forces, (Washington, D.C.: Government Printing Office), Appendix D, pp. 22-23.

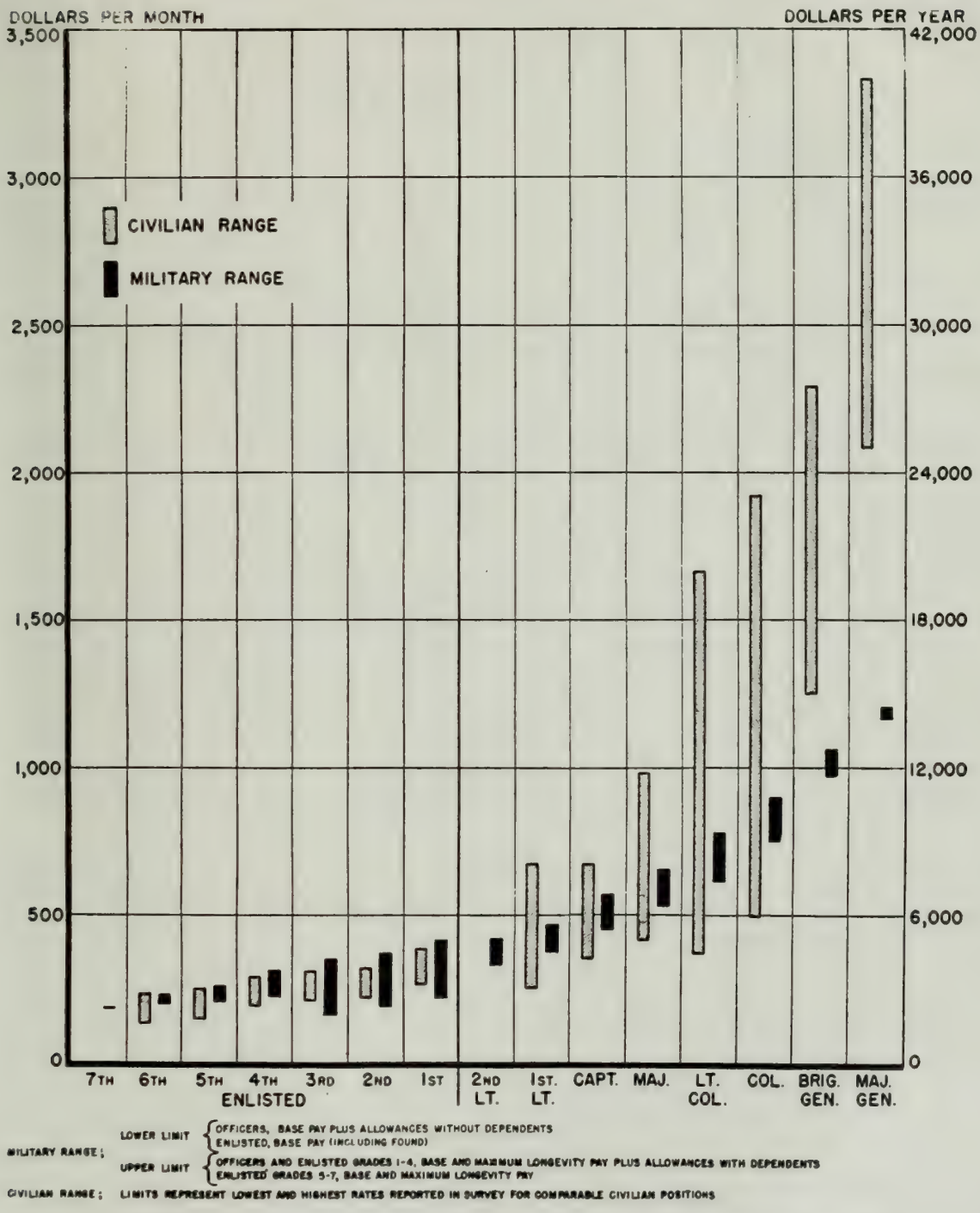
b. Factors not considered in Navy pay--medical care, laundry service, recreational facilities and haircuts, subsistence and quarters allowance.

c. Subsistence and quarters allowances are indicated.

d. Quarters allowance only included.

APPENDIX C

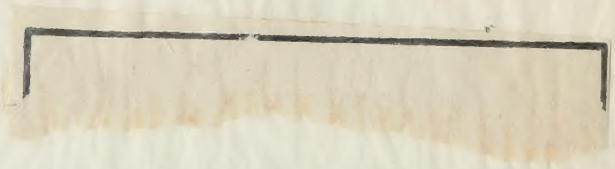
COMPARISON OF CIVILIAN COMPENSATION AND MILITARY COMPENSATION PROPOSED BY THE HOOK COMMISSION, 1948[a]



a. Source: Career Compensation for the Armed Forces (Washington, D.C.: Government Printing Office, 1948), p. 21.

NOTE: Pay schedules adopted in 1949 for officer personnel were actually lower than those proposed.

Calpeda
Fidelity Union Skyn
MADE IN U.S.A



NO 15 56 4567
FE 961 11761
SE 27 63 13378
FE 25 64 14176
23 JUL 65 14753
19 SEP 70 19523

Thesis 12837
H34 Hauck
A comparison of the retirement system of the armed forces with those in business and industry
FE 961 11761

The
H34

sys

business and industry

thesH34
A comparison of the retirement system of
3 2768 002 08601 9
DUDLEY KNOX LIBRARY